

REPORT | A Discussion on the Future of Puerto Rico's Economy

Compiled Statements

August 2017

Rep. Nydia M. Velázquez

U. S. HOUSE OF REPRESENTATIVES

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Note: Dr. Maria Enchautequi and Ms. Heidie Calero were invited but for reasons beyond their control were unable to participate. They submitted short statements included in the Expert Opinion section of this report.

PROLOGUE |

After 100 years of citizenship, policymakers are just now beginning to slowly peel through the layers of the intricate relationship that exists between the U.S. and Puerto Rico. That complex relationship – and its ambiguities – have shaped many of the policies that govern the island to this day.

It is this relationship that has denied Puerto Rico from equal treatment in federal benefits programs.

It was also this relationship that resulted in a haphazardly written health care policy that is now causing an imminent Medicaid crisis that could leave up to 900,000 U.S. citizens without health care.

Because of this relationship Puerto Rico must abide by different maritime laws than other U.S. territories, which contributes to a cost of living that is 8 percent higher in San Juan than the national average.

Again, it is due to this relationship – and these economic circumstances - that led Congress to allow the Island to restructure its debt, but only on the condition that it would be accompanied by an oversight board.

For over 20 years, I have witnessed the repeated debate on the same issues. We brainstorm, debate, and then do so again and again. As a territory of the U.S., subject to the plenary powers of Congress, the Puerto Rican government has little policy space to maneuver around the crisis without mechanisms from the Federal government.

We have seen tax incentives come and go, creating a “whipsaw effect” that left behind entire industries and, more importantly, the people of Puerto Rico. What Puerto Rico needs is a long-term economic strategy that will produce a path to assist the people that call Puerto Rico home.

What we do not need is further debate; we need action.

It is my hope that the enclosed report helps stakeholders to set aside differences and work together for a comprehensive, long-lasting solution.

If we move past our ideological differences and focus on tangible solutions, all Americans can benefit from Puerto Rico’s biggest assets: location, legal structure, and – most importantly – its human capital.

The only alternative is leaving behind 3.5 million of our fellow countrymen and women. Such an outcome would be unacceptable and unconscionable.

Let’s get to work.



Nydia M. Velázquez
Member of Congress

REPORT SUMMARY |

One year after passage of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA), Puerto Rico has called upon the tools that Congress provided to comprehensively restructure its debt. But more needs to be done. Many experts agree that while restructuring is necessary to stop the bleeding, stimulating growth is key for a path of sustainable economic recovery.

On July 18, 2017, Congresswoman Nydia M. Velázquez hosted a bipartisan roundtable discussion on the future of Puerto Rico's economy. National and local experts provided tangible policy proposals that the U.S. Congress can implement to ignite economic growth on the Island.

This report compiles the written statements provided by invited panelists.



“When it comes to creating economic growth in Puerto Rico, we should leave no stone unturned,” said Velázquez. “This event will allow for a wide ranging discussion of diverse proposals to help overcome challenges Puerto Rico faces on the road back to prosperity.”

- Nydia M. Velázquez

Attending Members of Congress

Leader Nancy Pelosi (D-CA)

Rep. Steve Chabot (R-OH)

Rep. Luis Gutiérrez (D-IL)

Rep. Yvette D. Clark (D-NY)

Rep. Joseph Crowley (D-NY)

Rep. Sean Duffy (R-WI)

Rep. Robin Kelly (D-IL)

Rep. Tom MacArthur (R-NJ)

Rep. Norma Torres (D-CA)

The event was also recorded and is available at: <https://youtu.be/aaZGu7I-VcU?t=31m15s>.

EXPERT OPINIONS |

Puerto Rico appears to be repeating Greece's policy mistakes. It is doing so by committing itself to dramatic fiscal policy austerity in a monetary union without at the same time undertaking serious economic reform. The social and economic consequences of sticking to a policy of budget austerity without at the same time reforming the economy should not be underestimated.

- *Dr. Desmond Lachman, Resident Fellow
American Enterprise Institute*

"Given the extreme weakness of the Puerto Rican economy it should be obvious that economic growth opportunities will not materialize spontaneously, even after significant debt restructuring. In our view, Puerto Rico needs to devise and execute a complex, two-prong strategy to restore growth. Congress needs to implement a comprehensive economic program, remove some of the disadvantages imposed on Puerto Rico under the current political arrangement, and eliminate some long-standing inequitable and discriminatory policies. The current situation simply does not allow for piecemeal action by Washington, a wide-ranging plan is needed."

- *Mr. Sergio M. Marxuach, Policy Director and General Counsel
Center for a New Economy*

At the end of the day, low-quality statistics mean that all stakeholders face greater uncertainty about the fundamentals of Puerto Rico's economy, making it difficult to make informed policy and investment decisions, thereby generating less growth than potential. We also believe that there are important steps that Congress can take to improve the quality and availability of the statistics prepared by the Federal Government with regards to Puerto Rico. For instance, this year, with sufficient funding, Puerto Rico could have been included in the Census of Governments 2017. This important program of the U.S. Census Bureau gathers data on the structure, employees, and finances at all levels of government every 5 years, and is an essential source on comparable benchmark statistics for credit markets.

- *Dr. Mario Marazzi, Executive Director
Puerto Rico Institute of Statistics*

The next decade will define the future of a whole generation of Puerto Ricans. Although the fiscal crisis permeates all segments of government, the specific budget cuts we are making represent important policy choices with long lasting consequences. In prior economic crises the federal government has lent a hand: the Puerto Rico Reconstruction Act, the Food Stamp Program, the 936 code of the IRS. We have no such help this time around. The next generations of Puerto Ricans will judge us by how we respond to this crisis. As of now we do not seem to have a clear road map of the economy we want to build and the society we want to be.

-*Dr. Maria Enchautegui, Director
Economics Department, University of Puerto Rico, Rio Piedras*

Social mobility, and the creation of a professional middle class in Puerto Rico, owe much to this institution [University of Puerto Rico] of higher education, which is now 114 years old. Young people in Puerto Rico today face terrible obstacles to professional and economic achievement. The affordability of higher education is one; the lack of jobs is another; and the proposal to reduce their wages is almost like adding insult to injury. More than any other generation, they will be under great pressure to leave the island for greener pastures. Maybe Congress can look at ways to increase funding for research at the University and to help to keep college education affordable for thousands of young Puerto Ricans.

*-Dr. Juan Lara, Professor
Department of Economics, University of Puerto Rico*

The collapse of the labor market in Puerto Rico and difficulties in finding adequate employment are at the core of Puerto Rico's economic, fiscal, and demographic challenges. Some propose cuts to health care, lowering the minimum wage, and cuts to social assistance programs but the only thing that these kinds of cuts will succeed in doing is increasing the poverty, inequality and misery of the US citizens that live in the US territory of Puerto Rico. Puerto Rico already has the lowest wages in the nation, by far, at \$9.42 or 56% of the nation's median hourly wage, of \$16.81. Puerto Rico's median hourly wage is 68% of Mississippi, the state with the lowest median hourly wages at \$13.76 per hour. In fact, Puerto Rico's median hourly wages are lower than the US Virgin Islands (\$13.36) and Guam (\$12.37).

*- Dr. Hector R. Cordero-Guzman, Professor Marx School of
Public and International Affairs, Baruch College*

Congress needs to heed the recommendations of its own Task Force Report, and provide economic tools for Puerto Rico. Some of these measures include preventing a Medicaid cliff that could leave up to one million Puerto Ricans without health insurance, providing equal treatment under the Child Tax Credit (CTC) program, extending the Earned Income Tax Credit (EITC) to the island, providing support for business development, and ensuring that Puerto Rico is not punished under Congressional tax reform legislation.

*- Dr. Edwin Meléndez, Director Hunter College, Center for
Puerto Rican Studies*

Congress can take action in a number of areas that could help the economy grow, including acting on a number of recommendations made by its Bi-Partisan Task Force and others such as eliminating air cabotage restrictions, providing Medicaid parity, providing better access to federal procurement, and making certain that federal tax reform does not harm the Island's economy.

*- Dr. José J. Villamil, Chairman and CEO
Estudios Técnicos*

A balanced fiscal budget alone will not rescue the PR economy from its long-term economic recession nor will it stop the outward migration of its residents. Bondholders of PR's public debt want to be paid but without a growing and vibrant economy, there will not be enough revenues to service this debt and continue providing "essential" government services. The best way to jumpstart the economy is thru large infrastructure projects.

*- Except from PR Economic Pulse, provided by Heidie Calero, President
H. Calero Consulting Group*

EVENT PANELISTS | BIOGRAPHIES

Dr. Desmond Lachman, Resident Fellow, American Enterprise Institute

Desmond Lachman is a resident fellow at the American Enterprise Institute. He joined AEI after serving as a managing director and chief emerging market economic strategist at Salomon Smith Barney. He previously served as deputy director in the International Monetary Fund's (IMF) Policy Development and Review Department and was active in staff formulation of IMF policies. Mr. Lachman has written extensively on the global economic crisis, the U.S. housing market bust, the U.S. dollar, and the strains in the euro area. At AEI, Mr. Lachman is focused on the global macro-economy, global currency issues, and the multilateral lending agencies.

Mr. Sergio M. Marxuach, Policy Director and General Counsel, Center for a New Economy

Sergio M. Marxuach is the Policy Director and General Counsel at the Center for a New Economy, a nonprofit, non-partisan think tank. Prior to joining the Center, Mr. Marxuach served as Deputy Secretary of Commerce and Economic Development for the Commonwealth of Puerto Rico and as Special Assistant to the executive director of the Commonwealth's Office of Management and Budget. Before joining the Commonwealth government, he was an associate for five years in the New York City law firm of Curtis, Mallet-Prevost, Colt & Mosle LLP, where he worked mostly in Latin American transactions and international corporate matters, structuring cross-border capital market transactions, and arranging vendor financing and syndicated credit facilities for U.S. multinational firms. Mr. Marxuach has a B.A. in Economics and Political Science from Yale University, where he was awarded the Henry Edwards Ellsworth Prize for his Senior Essay. He also obtained a Juris Doctor degree from the Georgetown University Law Center and a Master of Science in Foreign Service from the Graduate School of Foreign Service at Georgetown University.

Dr. Edwin Meléndez, Professor of Urban Affairs and Planning at Hunter College, Director of the Center for Puerto Rican Studies

Edwin Meléndez is a Professor of Urban Affairs and Planning at Hunter College and the Director of the Center for Puerto Rican Studies. He has conducted considerable research in the areas of Latino studies, economic development, labor markets, and poverty. In addition to numerous scientific papers and other publications, he is the author or editor of fourteen books including *Puerto Ricans at the Dawn of the New Millennium* (2014) and *State of Puerto Ricans* (2017). Professor Melendez has an extensive record of community and public service, including numerous appointments to government and community boards. He is presently on the Executive Committee of the Board of Directors of the National Council of La Raza, and the National Advisory Board of the John J. Heldrich Center for Workforce Development, Rutgers, The State University of New Jersey.

Dr. Mario Marazzi-Santiago, Executive Director, Puerto Rico Statistics Institute

Dr. Mario Marazzi-Santiago was appointed as the first Executive Director of the Puerto Rico Institute of Statistics in August 2007. In this position, he has been responsible for leading the development and growth of the organization. Previously, he served as Economist in the Division of International Finance of the Board of Governors of the Federal Reserve System in Washington DC. Dr. Marazzi has a bachelor's degree in economics from Harvard University, a master's degree in economics from Cornell University. In 2012, Dr. Marazzi was elected was the first Puerto Rican member of the International Statistical Institute.

Dr. Juan Lara, Chief Economist, Advantage Business Consulting; Professor, Economics at the University of Puerto Rico

Dr. Juan Lara is professor of Economics at the University of Puerto Rico in San Juan and a professional economic consultant to private and public entities in Puerto Rico. He served in the economic advisory committee to former Governor Luis Fortuño and was involved in policy evaluation projects in the administration of Alejandro García Padilla. His research focuses on the economy of Puerto Rico. He is a member of the Editorial Board of Caribbean Studies, a scholarly journal at the University of Puerto Rico. Dr. Lara received his M.A. and Ph.D. in Economics from Stony Brook University, of the SUNY system.

Dr. Héctor R. Cordero-Guzmán, Professor, Austin Marx School of Public and International Affairs at Baruch College of the City University of New York

Dr. Héctor R. Cordero-Guzmán is a Professor at the Austin Marx School of Public and International Affairs at Baruch College of the City University of New York. He is also a Professor in the Ph.D. Programs in Sociology and in Urban Education at the *City University of New York (CUNY) Graduate Center*. Dr. Cordero-Guzman has worked as a Program Officer in the Economic Development and the Quality Employment Units of the Asset Building and Community Development Program at *The Ford Foundation* and has served on the board of directors of several non-profit organizations. Dr. Cordero-Guzman received his M.A. and Ph.D. degrees in Sociology and Demography from *The University of Chicago*.

Statement for Congressional Puerto Rico Roundtable

Greek Lessons for Puerto Rico

Desmond Lachman
Resident Fellow

July 18, 2017

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Greek Lessons for Puerto Rico

Statement for Congressional Puerto Rico Roundtable

Desmond Lachman

**Resident Fellow
American Enterprise Institute**

July 18, 2017

It is said that those who do not learn from history are doomed to repeat it. Sadly, this seems to be the case with respect to the Puerto Rican government and its Oversight Board in their handling of the Puerto Rican economic crisis. By not drawing the right lessons from Greece's recent failed attempt at fiscal austerity within a monetary union, the Puerto Rican government is all too likely to exacerbate rather than to cure the island's current economic crisis.

Greek Parallels

In essence, Puerto Rico's macro-economic challenge today is very similar to that of Greece in 2010. As was the case in Greece, Puerto Rico's public finances have become seriously compromised in large measure due to years of economic mismanagement. This has led to a large public deficit, an excessive public debt to GNP ratio, and a very large amount of unfunded pension liabilities. Similarly, as was the case in Greece, Puerto Rico is now having to address these public finance imbalances within a currency straitjacket. Whereas Greece is part of the Euro bloc, Puerto Rico is tied to the US dollar which means that it does not have a currency of its own.

Large budget deficit reductions are very difficult to make in a monetary union. This is because the government lacks the normal monetary policy instruments to offset the contractionary impacts of tax hikes and public spending cuts on the economy. Not having its own central bank, it cannot lower interest rates to cushion the blow of budget belt-tightening. Similarly not having a currency of its own it cannot resort to currency depreciation to boost its exports and reduce its imports.

There are reasons to think that Puerto Rico's challenge of rebalancing its economy today without monetary policy instruments is even more daunting than was that which Greece faced in 2010. Whereas Greece started its adjustment process with its macro-economy in reasonably good health, Puerto Rico is starting its adjustment process with its economy mired in a ten-year slump. Over the past decade, the Puerto Rican economy has shrunk by 10 percent while more than 10 percent of its population has migrated to the

mainland. At the same time its unemployment rate remains over 12 percent and barely 40 percent of its population participates in the labor market. The island shows little sign of exiting this economic slump anytime soon.

Greece's Experience

Greece's recent very unfortunate experience with excessive budget belt-tightening within a Euro straitjacket offers a cautionary tale for Puerto Rico. Since 2010, mainly as a result of an attempt to reduce the budget deficit by more than 10 percent of GDP, Greece is now experiencing a deep economic depression. Indeed, Greece's loss of output over the last eight years exceeds that experienced by the United States in the 1930s. Greek GDP has declined by around one quarter, unemployment has risen to 25 percent, and youth unemployment has risen to over 50 percent. It is disturbing that the Greek economy is yet to show any real signs of economic recovery.

To its credit, the IMF has drawn the following three lessons from its Greek experience that might be pertinent to Puerto Rico's current economic challenge:

- a. The negative impact of major budget tightening on an economy in a monetary union can be very large. Indeed, the IMF now estimates that the fiscal multipliers in a monetary union could be as high as 1.7. This means that, assuming that everything else stays the same, budget tightening measures amounting to 1 percent of GDP can lead to a 1.7 percent decline in GDP relative to where it would otherwise have been.
- b. Structural economic reform is of the essence for an economy trying to make a large budget deficit reduction effort in a monetary union. Those reforms are necessary to make the economy a more attractive place in which to invest and thereby to provide a much needed offset to the contractionary effect on the economy of budget belt-tightening. Greece's disastrous economic performance in recent years owes much to having engaged in draconian budget belt tightening without at the same time reforming its highly uncompetitive economy in general and its rigid labor market in particular.
- c. It is counterproductive to delay the restructuring of an economy's debt if that economy's debt is judged to be unsustainable particularly if that economy is in a monetary union. Not restructuring the debt in a timely fashion can lead to demands for the economy to make a larger than desirable fiscal effort. That in turn can result in a sharp drop in the economy's output that can have the effect of both reducing tax revenue collection and raising the debt to GDP ratio. The IMF now

acknowledges that it was a mistake not to have insisted on a Greek debt restructuring at the start of the IMF's Greek financial support program in 2010.

Puerto Rico's economic outlook

Puerto Rico's economic prospects do not appear to be at all favorable considering that its government and Oversight Board appear to be making each of the three basic mistakes that Greece made in the handling of its economic crisis:

- a. Like the Greek government before it, the Puerto Rican government is being required by its Oversight Board to do more budget adjustment than is advisable within a US dollar straitjacket. This is especially the case at a time that its economy is still declining. According to the island's recent fiscal plan, which was approved by its Oversight Board, over the next few years Puerto Rico is planning on budget tightening amounting to around 6 percent of GNP. Assuming that Puerto Rico's fiscal multiplier is around 1.5, its GNP could decline by a further 9 percent as a direct result of those budget measures.
- b. In much the same way as Greece engaged in drastic budget belt-tightening without structural economic reform, Puerto now seems to be doing the same. Under the tutelage of its Oversight Board, most of the Puerto Rican government's policy efforts are directed at budget deficit reduction with very little being done to reform the Puerto Rican economy in a manner that might make it more competitive.

The lack of reform is all too evident in the island's highly uncompetitive labor market where labor participation is below 40 percent. In particular, little is being done to adopt the following three basic labor market reforms that were suggested by the Krueger Report:

- i. The introduction of measures to reduce Puerto Rico's currently high minimum wage in relation to the level of its local income.
 - ii. The reform of federal welfare payments to make them consistent with local labor market conditions rather than with US mainland conditions.
 - iii. The streamlining of labor laws to reduce the island's employment costs and to make the island's labor market more flexible.
- c. As was the case in Greece, Puerto Rico is failing to face up to its debt problem in a timely way. Even though there is widespread recognition

that the island is insolvent, it is yet to restructure its public debt mountain or to address its chronic pension situation.

Concluding Remarks

Puerto Rico appears to be repeating Greece's policy mistakes. It is doing so by committing itself to drastic fiscal policy austerity in a monetary union without at the same time undertaking serious economic reform. If Greece's experience with such a policy mix is anything by which to go, unless there is a major change in policy direction Puerto Ricans should brace themselves for several years more years of a slumping economy.

The social and economic consequences of sticking to a policy of budget austerity without at the same time reforming the economy should not be underestimated. Puerto Rico is already poorer than any of the 50 states in the United States and it has an unemployment rate of over 12 percent. In addition, it is already losing around 2 percent of its population each year to migration.

It would seem that if Puerto Rico is avoid a deepening economic depression, it must change policy course and come up with a comprehensive plan focused on promoting rapid economic growth. Such a plan might be centered on a more reasonable pace of budget reduction, serious economic reforms especially to its labor market, and a major reduction in its debt burden. Needless to add, the island could also benefit from substantive Congressional support in the form of the repeal of the Jones Act and the restoration of at least some of the tax advantages that the island previously enjoyed.



ROUNDTABLE DISCUSSION ON THE FUTURE OF PUERTO RICO'S ECONOMY

STATEMENT FOR THE RECORD
SERGIO M. MARXUACH
POLICY DIRECTOR
CENTER FOR A NEW ECONOMY
WASHINGTON, DC
18 JULY 2017



Introduction

Good afternoon, Ranking Member Velázquez, Members of the United States House of Representatives, and distinguished guests. I thank you for the opportunity to appear today before this Roundtable to Discuss the Future of Puerto Rico's Economy. My remarks today will cover three topics. First, I will briefly discuss the impact of the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). Second, I will stress the need for policy initiatives at the Federal level to help Puerto Rico end its current downward economic spiral and jumpstart economic growth in the short-term. Finally, I will outline the work of the Growth Commission convened by the Center for the New Economy to develop a long-term economic growth strategy for Puerto Rico.

PROMESA: A Game Changer

The enactment of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in June 2016 opened a new chapter in U.S.-Puerto Rico relations. After decades of benign neglect, Congress recognized in 2016 that it has a moral obligation under the U.S. Constitution to foster the welfare of the U.S. citizens that live in Puerto Rico. This means, first and foremost, that it is in Congress's own interest to see through that Puerto Rico is successful in addressing its current fiscal and economic crisis.

Unfortunately, some of the policy tools set forth in PROMESA are not working as expected and may actually hinder the island's ability to escape its current economic death spiral.

First, the imposition of a Fiscal Oversight Board over the duly elected government of Puerto Rico—with broad powers over the island's fiscal and economic policies, authority to command the implementation of its recommendations, and the capacity to prevent the enforcement or execution of otherwise valid contracts, executive orders, laws or regulations—has seriously undermined the island's political institutions, already extremely compromised by clientelism, partisan politics and corruption.

In addition, the Fiscal Oversight Board has added a new layer of opacity to fiscal policymaking in Puerto Rico. The discussions among Board members have been carried out mostly behind closed doors, while interactions between the Board and the Government of Puerto Rico tend to be summarized *ex post*, usually through succinct letters written in rather cryptic language. It is quite ironic that the Fiscal Oversight Board, which, among other things, was given the task of increasing the transparency of Puerto Rico's finances, has actually contributed to worsening that problem.

Second, the benefits of PROMESA's complicated territorial debt restructuring process, which combines principles drawn from both the U.S. Bankruptcy Code and from the realm of sovereign debt restructuring, remain fairly uncertain and contingent on the successful implementation of a completely new and untested legal framework for territorial

bankruptcy. The risk that such an experimental framework fails to adequately address Puerto Rico's debt restructuring needs are magnified by the fragile state of the Puerto Rican economy, which has undergone a protracted decade-long contraction.

Finally, both the fiscal plan and the budget for fiscal year 2018 that have been certified by the Fiscal Oversight Board impose significant austerity measures in the short-term. The most likely result of the implementation of these measures will be a further contraction of the Puerto Rican economy; increased unemployment, poverty and inequality; thus generating further migration to the mainland and lower tax revenues in the island as the tax base shrinks; which will lead to calls for more cuts in government services; less government services, in turn, will lead to a general decrease in quality of life and living standards, which will result in yet more "push" migration to the mainland.

Jumpstarting the Economy – The Federal Component

Given the extreme weakness of the Puerto Rican economy it should be obvious that economic growth opportunities will not materialize spontaneously, even after significant debt restructuring. In our view, Puerto Rico needs to devise and execute a complex, two prong strategy to restore growth. First, there is a need to jumpstart economic growth in the short-term. Second, the island needs to formulate an economic development plan to sustain that growth over the long-term, something it has failed to do for quite some time.

Again, it is important to highlight that this already difficult task is further complicated by the austerity policies the Fiscal Oversight Board has required Puerto Rico to implement. The certified fiscal plan for Puerto Rico orders the island's government to implement large expenditure cuts, significant tax increases, and deep structural reforms *without access to any short-term financing*.

The implication of the Fiscal Oversight Board's policy posture is that—unless Congress is otherwise willing to address a full-scale social crisis in Puerto Rico—Federal assistance will be necessary to jumpstart economic growth in the short-term. Congress needs to implement a comprehensive economic program, remove some of the disadvantages imposed on Puerto Rico under the current political arrangement, and eliminate some long-standing inequitable and discriminatory policies. The current situation simply does not allow for piecemeal action by Washington, a wide-ranging plan is needed.

A short-term economic program for Puerto Rico at the Federal level should, at a minimum, focus on the following issues:

- *PROMESA Implementation* – The Fiscal Oversight Board will be probably be in place for at least five or six years. *Congress has a moral obligation to ensure it works in the best interests of the people of Puerto Rico and not for the benefit of other extraneous and opportunistic stakeholders.* The guiding principle here should be: first do no harm. That is why it is particularly important for Congress to (1)

- supervise the development of fiscal plans and annual budgets; (2) follow closely the developments regarding the restructuring of Puerto Rico's debt and all Title III and Title VI proceedings under PROMESA; (3) propose alternatives to the counterproductive austerity policies imposed by the Fiscal Oversight Board; (4) follow-up on the recommendations made by the Congressional Task Force in December 2016; and (5) ensure that the U.S. government provides much needed technical assistance to the Puerto Rico Office of Management and Budget and the Puerto Rico Treasury Department.
- *Healthcare* – The cost of the Government Health Plan is one of the principal drivers of Puerto Rico's budget deficit and healthcare funding is the number one policy issue for Puerto Rico in Washington right now. Puerto Rican workers and employers pay the same payroll taxes as workers and employers in the mainland, yet benefits to Puerto Rico are unfairly rationed by federal legislation. In addition, Federal funding for Medicaid in Puerto Rico is unfairly capped, and the island is subject to unequal reimbursement treatment regarding key Medicare programs. Moreover, the island faces the consequences of the possible repeal and replacement of the Affordable Care Act, as well as proposed changes to the funding for the CHIP, Medicaid, and Medicare programs. Over half a million beneficiaries could lose their access to Puerto Rico's public health insurance program. Providing Puerto Rico equal treatment in these Federal programs would grant the Commonwealth much-needed fiscal space and address a long-standing injustice inflicted on Puerto Ricans.
 - *Safety Net Programs* – Puerto Rico is an extremely poor territory of the United States. Therefore, maintaining key safety net programs such as the Nutritional Assistance Program, Social Security Disability Insurance, and the WIC program; as well as extending to Puerto Rico the Child Tax Credit and the Earned Income Tax Credit, among other federal programs, is crucial for the wellbeing of thousands of low-income Puerto Ricans.
 - *Jumpstarting Economic Growth* – The short-term growth program from Washington should also include treating Puerto Rico fairly and equitably in any tax reform and infrastructure proposals made by the Trump administration; increasing federal procurement spending, augmenting the SBA's presence and activity in Puerto Rico, and providing additional NIH/CDC research funding; maintaining or increasing K-12 and university Federal education funding; providing Department of Energy technical assistance to the Puerto Rico Electric Power Authority ("PREPA"); actively promoting the effective use of Workforce Development Programs; and seeking a partial exemption from the Jones Act.

The CNE Growth Commission – The Local Component

In addition to those initiatives at the Federal level, Puerto Rico needs to craft a local long-term economic development strategy and strengthen its execution capabilities.

Achieving long-term, sustainable economic growth and development is a complex endeavor that requires a new set of strategies and the rebuilding of institutions; thus, there are no quick fixes or silver bullets.¹ In other words, economic growth is not simply a function of exiguous regulation, low wages, or preferential tax treatment. Rather, the process of growth is quite complicated, involving the interplay of many variables and factors that must be present if a country is to succeed.

As a first step in charting the road towards sustainable economic development, the Center for a New Economy (CNE)—Puerto Rico’s premier and only independent, nonprofit think tank—has undertaken the task of empaneling the CNE Growth Commission for Puerto Rico (the “CNE GC”).

The CNE GC will identify opportunities and innovative strategies that can disrupt the pernicious pattern of economic decline, weak governance, deficient policymaking and flawed assessments of results, and embark on a new path to foster long-term growth.

CNE’s vision is based on the premise that long-term sustained economic growth is a result of a country’s capability to progressively move into higher value-added activities. This is achieved by improving the types and quality of the goods and services produced and by finding innovative and more efficient ways of producing them. This is especially true in the 21st century, which is characterized by ever-deeper inroads into a knowledge based economy and by heightened global competition. Therefore, any new economic strategy for long-term growth ought to be focused on:

- (1) Speeding up the process of economic structural change by advancing the economy’s insertion in high-value niches, investing in innovation, and adopting new knowledge and technologies;
- (2) Creating the institutional framework to promote this structural change; that is, *revamping* the institutions whose mission is to promote this transformation; and
- (3) Devising public policies that help raise the wellbeing of society in an inclusive manner, so that most of its members can benefit from the gains of improved economic performance.

¹ Indeed, past efforts have been unsuccessful mainly due to the failure to understand the complexity of the growth process. It requires, for example, setting realistic goals for and building adequate execution capabilities in economic development institutions; the revamping of competition policy and its enforcement; providing structural access to credit; improving the fiscal toolkit of exemptions, credits and deductions; updating and modernizing obsolete regulations; and strengthening the research and innovation ecosystem.

An important factor to keep in mind is that the capability of the government to implement its development strategies, policies, and programs, as well as to provide continuity to these, is a key constraint. Therefore, developing the capabilities for private actors and the government to work together towards these objectives is a key component of any proposed growth and development agenda.

Objectives

The CNE Growth Commission will identify and produce relevant analyses, policy designs and, in certain instances, demonstration projects to improve economic and social policy decision-making in Puerto Rico. These initiatives should advance the creation and institutionalization of *learning cycles* via sustained collaborations between government policy-makers, practitioners, and key stakeholders in academia, the NGO community, and the private sector.

Proposed Agenda

The Commission will work towards (1) identifying and suggesting ways to relax local and external constraints that inhibit the territory from speeding up the process of economic structural change towards higher productivity activities; and (2) generating opportunities to diversify the portfolio of high productivity activities in the economy. Specifically, the Commission will focus on the following areas with the potential for high impact:

- **Area 1: Identifying Sectorial Opportunities**

The strategy to move Puerto Rico into higher value-added activities and improve productivity across sectors of the economy will require a rigorous diagnostic analysis. This analysis will help determine an *ex ante* optimal research portfolio to be developed for purposes of industrial promotion activities. This, in turn, will require setting realistic goals and adequately assessing the management execution capabilities of the territory's economic development institutions.²

Identification of New Sectorial Ventures – A cutting-edge methodology in productive development diagnostics, *product space analysis* will help the Commission to identify new products and services that could augment aggregate value through the use of existing productive capabilities embedded in the island's current production structure. The methodology operationalizes the idea that it is generally easier for countries to move from products and services that they already produce to others higher in the value chain that are

² Caveat: At present, key public institutions such as the Puerto Rico Industrial Development Company, the Puerto Rico Science and Technology Trust, the Government Development Bank, and the Economic Development Bank, have depleted their assets and funding independence; while the fiscal and market competition policy components are controlled by institutions outside the economic development arena (i.e., the Department of the Treasury on the tax regime for multinationals, emerging and existing businesses; and the Department of Justice on competition policy).

similar in terms of capital requirements, knowledge, and skills. Because not all feasible new products contribute in the same way to value added and growth, a key challenge along the diversification process is the identification of those goods/services that are feasible and have a higher potential to sustain economic development.

- **Area 2: Horizontal Reforms to Enhance Competitiveness**

At the same time, the Commission will identify opportunities for effective policy reform in areas with the potential to enhance the competitiveness of local and multinational producers across multiple sectors, such as: tax and competition policy, human capital and workforce development, energy production, and communications, information, and technology infrastructure, among others.

- **Area 3: Macro-Fiscal Policy**

A Working Group of the Commission will develop feasible proposals for tax policy reform with the aim of (i) enhancing the territory's competitiveness and (ii) reducing tax distortions that may inhibit productivity growth in the private sector. This Group will work on evaluating the potential for a *disciplined* fiscal reform to enhance the territory's competitiveness, given its inclusion in the US monetary union.

In addition, Puerto Rico's deep and prolonged recession has made the Commonwealth's debt position unsustainable. In such a recessionary (demand-constrained) regime, as demonstrated by the significant sub-utilization of available factors of production (i.e., labor, capital), an austerity-based internal devaluation would be suboptimal—both unfair and inefficient. Instead, the deep fiscal imbalance, population contraction, and lack of government access to credit, demand a rigorous assessment of the debt restructuring requirements that are a necessary condition for restoring economic growth. **Conclusion**

In sum, Puerto Rico has been under severe economic, fiscal, and financial stress during the past decade. During that period the Commonwealth has enacted a series of austerity and fiscal consolidation measures. Yet, in contrast with other jurisdictions that could complement those policies with either (1) a currency devaluation to boost exports or (2) loans from emergency liquidity facilities negotiated with international multilateral institutions, Puerto Rico, due to its institutional constraints, cannot devalue its currency nor does it have access to such emergency liquidity facilities.

Furthermore, the Fiscal Oversight Board has ordered Puerto Rico to put on the equivalent of an IMF policy straitjacket without providing access to the few benefits that usually accompany IMF conditionality programs. In our view, this policy posture simply does not make sense and implementing these policies will, in a perverse way, *decrease* Puerto Rico's short and medium-term capacity to pay its debts and obligations by amplifying an already prolonged economic contraction.

Second, in the short-term, a firm Federal commitment to jumpstarting economic growth in the island is crucial to help Puerto Rico turn its economy around. Congress needs to implement a comprehensive economic program, remove some of the disadvantages imposed on Puerto Rico under the current political arrangement, and eliminate some longstanding inequitable and discriminatory policies.

Third, in addition to initiatives at the Federal level, Puerto Rico needs to craft a long-term local economic development strategy. This strategy should consist of sectorial, horizontal and institutional policies to promote Puerto Rico's capability to progressively move into higher value-added activities.

Fourth, we note that any new economic strategy for Puerto Rico, no matter how nuanced, sophisticated, or brilliantly conceived, is bound to eventually fail if it ignores the fact that Puerto Rico has reached the limits of its development within the multiple constraints imposed by its subordinate political status, which is both humiliating to Puerto Ricans and unworthy of the United States.³

In conclusion, Congresswoman Velázquez, I thank you once again for the opportunity to participate in this important public policy debate and look forward to answering any questions that you or other Members may deem appropriate to ask.

³ Neither a sovereign country nor a state of the union, Puerto Rico has no authority to negotiate international treaties, no access to emergency financing from multilateral institutions, no monetary policy instruments, limited fiscal policy tools, nominal representation in Congress, and the U.S. Supreme Court has determined it is constitutionally permissible for Congress to discriminate against Puerto Rico in the application of federal programs as long as there exists a "rational basis" for doing so.

STATEMENT FOR THE RECORD
EDWIN MELENDEZ
PROFESSOR OF URBAN AFFAIRS AND PLANNING AT HUNTER COLLEGE AND DIRECTOR OF
THE CENTER FOR PUERTO RICAN STUDIES
WASHINGTON, DC, 18 JULY 2017

Puerto Rico's Economic Recovery Is a Shared Responsibility

Many in Puerto Rico believe that the 10-year plus economic depression is directly and primarily correlated to Congressional policies that for decades have harmed the commonwealth's economy. On the other hand, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) based on the assumption that the political leadership in Puerto Rico had been primarily responsible for the debt crisis and for driving the economy into the ground. Thus, the imposition of a seven-member Financial Oversight and Management Board (FOMB).

Unfortunately, both views contain some truth.

It was Congress and the ruling political party in Puerto Rico at the time that decided to phase out Section 936 of the Internal Revenue Code, a decision that provoked the loss of 75,000 manufacturing jobs over the ensuing decade. The phase-out ended in 2006 — the very year the recession started in Puerto Rico. The inability to foster alternative economic strategies to mitigate the loss of federal tax incentives — as well as ill-advised spending decisions by the island's politicians — aggravated the situation. U.S. policies unfairly discriminate in Medicaid and Medicare allocations and contribute to a higher cost of energy and imports. On energy production, a self-regulated public monopoly is responsible for the highest cost of energy within the United States.

Puerto Rico's economic crisis is a shared responsibility, and its recovery should be a shared responsibility as well. Congress mistakenly assumes that merely allowing the FOMB set-up under the federal law will provide the necessary independence and structural reforms for the economy to magically bounce back after more than a decade of negative growth. To be fair, restoring economic development is a responsibility that should be shared among: the FOMB, which oversees finances; the commonwealth's government, which controls structural adjustments to services and brokers economic initiatives with the private sector; and Congress, which is responsible for the economic and legal oversight of territories.

Entering on a court-supervised bankruptcy procedure was a necessary first step in reducing debt payments to a sustainable level, but by itself it is insufficient to restore economic stability, let alone to pull the island's economy out of a decade-long contraction. Before any new policies are enacted, there must be recognition that if Puerto Rico is to be put on a sustainable fiscal and economic path to be able to pay its debts, an extreme austerity-only approach to fiscal policy is not the answer. Without targeted economic tools to help stimulate growth, Puerto Rico could well be on its way

to even deeper economic doldrums. And, economic development is ultimately the only way to ensure that a restructured debt is paid for.

In this presentation, I will highlight some of the remedies that could be put in place by these key economic actors, remedies to incentivize job creation and to induce fiscal reforms to correct this situation. I will begin by addressing the energy sector, core and urgent economic policy reforms mostly within the Puerto Rico policy domain, and then discuss the role of Congress and the White House.

Energy

Energy is a key area in which significant reform lays now with the federal court through bankruptcy under Title III of PROMESA. The electricity sector in Puerto Rico relies solely on the Puerto Rico Electric Power Authority (PREPA) for generation, distribution, maintenance, and planning, and since May 2014 it has been regulated by the Puerto Rico Energy Commission (CEPR).

PREPA's current situation is unsustainable. As a monopoly, PREPA is often described as inefficient, subject to political influences in decision-making, and as a public utility governed by the interests of bondholders.⁴ A public monopoly is typical of state controlled energy generation in the U.S., yet it is the least conducive model to lowering electricity rates for consumers, improving efficiency, and facilitating the incorporation of alternative energy sources.

The bankruptcy procedure offers a rare opportunity to reform the energy industry in Puerto Rico. In this case, privatization of a state utility in order to create a private monopoly would not be an optimal solution. I agree with the recommendation by the Puerto Rico Private Sector Coalition of introducing "open access and market frameworks" to support "sustainable and competitive energy pricing." In the context of a bankruptcy case⁵, an evident option is to separate energy production from transmission and distribution.

Since 2000, two of the ten generation plants (accounting for about one-fifth of PREPA's capacity) are operated by private companies. While PREPA owns and manages all oil based generators, these companies manage coal and natural gas generators. PREPA can focus on the development of a smart grid — on the transmission system, conservation and demand-side management, efficiency, and energy democracy where a common carrier promotes non-discriminatory access to all suppliers, including commercial, residential, and municipalities. With a goal of establishing an integrated distributed generation system, these actors could invest in the necessary infrastructure

⁴ Puerto Rico Energy Initiative, Statement by the Puerto Rico Private Sector Coalition Submission for the record of the Congressional Growth Task Force, September 2, 2016. Jorge L. San Miguel, Esq., Exploring Energy Challenges and Opportunities Facing Puerto Rico, Testimony Before the United States House Committee on Natural Resources, Subcommittee on Energy and Mineral Resources, January 12, 2016.

⁵ Though bankruptcy under Chapter 9 is feasible, there are no recent cases of public utilities in the energy sector that have undergone this procedure, yet there are plenty of major private companies restructured as different companies under Chapter 11 procedures.

for a modern local grid (such as substations, transformers, net metering, and micro grids). Creditors would receive ownership in the new companies.

In this context, the Puerto Rico Energy Commission (CEPR) will play a critical role.⁶ They will oversee the conversion of existing plants to achieve the goal of at least sixty percent (60%) of “high-efficiency” electric power generation and the implementation of a progressive plan to foster integration of renewable energy to improve the Renewable Portfolio Standard (RPS) to a goal of 20% by 2035. Given the nature and scope of these reforms, restructuring the energy sector would most likely require not only participation of the FOMB and the CEPR, but also approval of the proposed plan by the legislature and the governor.

Recommendations of the Bipartisan Congressional Task Force on Economic Growth

Congress needs to heed the recommendations of its own Task Force Report, and provide economic tools for Puerto Rico. Some of these measures include preventing a Medicaid cliff that could leave up to one million Puerto Ricans without health insurance, providing equal treatment under the Child Tax Credit (CTC) program, extending the Earned Income Tax Credit (EITC) to the island, providing support for business development, and ensuring that Puerto Rico is not punished under Congressional tax reform legislation.

When it comes to healthcare, if Congress does not act to prevent the “Medicaid Fiscal cliff,” thousands of Puerto Ricans will continue moving to the states. The jurisdictions they move to will have to increase healthcare spending, since it is three to four times more expensive to treat patients in states like Florida, New York, Pennsylvania, and others, than if they stayed in the island. This Medicaid cliff is the result of yet another Congressional action that treats Puerto Rican healthcare patients as second-class citizens.

Health and Human Services Secretary Tom Price recently stated that the island needs \$900 million in order to avoid a complete collapse of its healthcare system at the end of the year. Puerto Rico is not asking for a bailout or a handout; it is merely asking to maintain current levels of funding. Congress recently increased Medicaid funding for Puerto Rico, but only for about a third of what is needed and which is set to run out in October.

After the final report was submitted to Congress, additional legislative initiatives were spearheaded by former members of the Congressional Task Force on Economic Growth for Puerto Rico that are important to consider. A bill introduced by Congresswoman Nydia Velázquez (D-NY) proposes to increase the portion of small business loans guaranteed by the Small Business Administration and to lower fees for private lenders participating in the program. In addition, the bill will give preferences in contracting to Puerto Rico businesses, expand entrepreneurial development services, expand the

⁶ See letter from Melendez *et al.* to the Congressional Task Force on Economic Growth in Puerto Rico on Energy Policy for Puerto Rico, October 14, 2016.

availability of micro-loans for smaller ventures, and support veterans' entrepreneurship development. U.S. Senator Marco Rubio (R-FL), also a member of the Congressional Task Force, introduced legislation to provide a subsidy of up to a maximum of \$2.50 per hour to employers hiring low-wage workers (those earning less than \$10 per hour).

Another critical matter is federal tax reform. Congress cannot afford to repeat the same mistake it made in 1996 when it repealed Section 936. Any change to the federal tax code must encourage more, not less investment by U.S. manufacturing companies in the island. One clear example of needed Congressional action is the extension of the tax credits under the U.S. Code § 199 on income attributable to domestic production activities in the Commonwealth of Puerto Rico that expired in January 1, 2017. The Section 199 tax deduction of nine percent benefitted businesses in manufacturing, electricity or water production, construction, and certain other production activities made investment in these industries more advantageous.

Finally, I support the proposal of the Puerto Rico Private Sector Coalition as submitted to the Congressional Growth Task Force on September 2, 2016, regarding an amendment to U.S. Code § 48C — a qualifying advanced energy project credit to allow federal tax credits to be "sold by the taxpayer to an unrelated person and shall be considered transferable and exchangeable for purposes of this sub-chapter." This proposal will create a market for federal tax credits for investment in qualifying energy programs under IRS regulations allowing businesses with federal liabilities to invest in energy projects in Puerto Rico.

Federal tax incentives could provide needed capital for renewable energy in projects undertaken by the public and nonprofit sectors in addition to those undertaken directly by the private sector. Language should be included in the proposed amendment to give priority to projects involving syndication by non-profit organizations and from municipalities, small-medium sized businesses operating in Puerto Rico, and residential communities. This would encourage not only short-term investments in energy projects, but also the development of local capacity and support of incipient local initiatives that will lead local, sustained socio-economic development once federal support diminishes.

All in all, the proposed package of economic stimulus legislation might be similar in scope to President Barack Obama's package of \$7 billion, of which \$1.4 billion were for federal agencies and \$5.6 billion for the state government, through the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA funding was spent from 2009 to 2013. However, because most of the ARRA funds were intended to maintain police and other essential public services, the allocations of funds to incentivize job creation in the private sector and labor force participation should have a bigger multiplier effect and long-lasting impact on the island's economy.

White House Task Force on Puerto Rico

Since 2009, the Task Force on Puerto Rico has focused on job creation, education, health, renewable energy and economic development. The impact of this interagency task force on economic development in Puerto Rico was mixed.⁷ Yet, it is important to consider the potential for the White House Task Force on Puerto Rico for guiding federal programs coordination and advocating for impactful investments in the island through the vast system of federal economic development programs that are currently available.

Since 2008, the federal Business Energy Investment Tax Credit (ITC) has served as incentive for the corporate sector to invest in renewable sources energy development and production. The ITC's offering awards equivalent to 30% of the energy project's total eligible cost is one of the most important federal policies to support the deployment of alternative energy in residential and commercial properties the United States.

There is also a federal renewable electricity production tax credit (PTC): "The federal renewable electricity production tax credit (PTC) is an inflation-adjusted per-kilowatt hour (kWh) tax credit for electricity generated by qualified energy resources and sold by the taxpayer to an unrelated person during the taxable year."

The Energy Manufacturing Tax Credit (EMTC) awards tax credits to new, expanded, or re-equipped domestic manufacturing facilities that support clean energy development. These energy tax credits programs could be combined to support investments for alternate ways of operating the electric power system, such as micro grids (discrete energy system operating in parallel with, or independently from, the main power grid) and community solar systems.

Federal tax incentives for energy projects can create jobs and encourage investment in renewable technology. These tax credits can increase competition in the generation, storage, and distribution of electricity in Puerto Rico, induce technological innovation and, ultimately, lower consumers' costs. Any energy tax credit should be granted preferentially to initiatives that would support the growth of the local renewable energy industry.

Additional tax credits to be considered for expansion in Puerto Rico are the Low Income Housing Tax Credits (LIHTC), New Markets Tax Credit (NMTC), and Promise Zone (PZ) for local infrastructure and economic development, among others.

These are several examples of targeted federal tax exemptions with a successful track record supporting economic development, receiving continuous bipartisan backing and

⁷ Though President Barack Obama designated the municipalities of Naguabo, Ceiba, and Fajardo as the Eastern Puerto Rico Promise Zone (EPRPZ) to mitigate the devastation of the closure of Naval Station Roosevelt Road, other recommendations by the President's task force on Puerto Rico across a variety of areas, including economic growth, education, energy, and health care have not been implemented. Among these, extending the child tax credit was given high priority, yet is still pending for congressional action.

with potential to expand significantly in Puerto Rico. These tax credit programs have specific legislative language with clear accountability and oversight regulations, and their programmatic impacts and intended consequences are well known to policy makers.

Conclusions

Puerto Rico has been facing a debilitating economic recession since 2006. The recession has also forced over half a million Puerto Ricans to move from the island to the U.S., with more emigrating every day. In addition, unemployment on the island is 12% and labor force participation rates are at historic lows, at roughly 40%. Poverty rates are also in the mid-40% range.

With numbers like these, one would think that Congress would be hard at work devising urgent economic development measures to rapidly boost growth. Unfortunately, this has not happened. Congress has not acted upon a report by a bipartisan Congressional Task Force on Economic Growth in Puerto Rico set up by PROMESA that laid out specific economic tools for Puerto Rico.

The recommendations made by the Congressional Task Force on Economic Growth in Puerto Rico are just modest steps in a variety of ways the U.S. government can support an island that is desperate to get back on its feet. As the data clearly shows, if Congress does not deal with this problem on the island immediately, it will become a lot more expensive and politically sensitive in the future.

So far, significant local initiatives on economic development are lacking as well. The FOMB could approve projects under the “critical infrastructure” provisions of PROMESA that give it the power to fast-track major projects to create jobs and jumpstart the economy. However, not a single major project has been presented to or approved by the FOMB.

No one knows for sure what economic effect austerity measures will have, how much of the debt service the government will eventually have to pay, and whether or when the economy will grow. What we do know is that austerity alone will not solve the problem. Puerto Rico cannot simply cut its way into solvency. The real challenge continues to be economic growth. Despite taking a few steps in the right direction, the FOMB and the commonwealth and federal governments have much more to do.



July 18, 2017

Rep. Nydia Velázquez
U.S. House of Representatives
Congress of the United States
2302 Rayburn House Office Building
Washington, DC20515

SUBJECT: THE FUTURE OF PUERTO RICO'S ECONOMY

Dear Rep. Nydia Velázquez:

Greetings from the Puerto Rico Institute of Statistics (PRIS).

I. Introduction

PRIS is an independent public entity of the Government of Puerto Rico with authority over the statistical policy of Puerto Rico public entities. We work to ensure universal and timely access to comprehensive and reliable statistics on Puerto Rico.

PRIS began operations in 2007, at the start of Puerto Rico's current fiscal crisis and economic recession. We have worked intensely on implementing the PRIS Charter Law, since the beginning of operations just about 10 years ago. During this time, as a result of the fiscal crisis and the need to operate as an independent entity that is not beholden to political interests, the Government of Puerto Rico has only assigned about a quarter of the budgetary resources that were approved in the PRIS Charter Law, a factor which has greatly limited our efforts.

Even under these conditions, since its inception, PRIS has been able to comply with its duties without incurring in budget deficits, without emitting debt of any nature, and without a single audit finding from the Puerto Rico's Comptroller's Office. PRIS is administered as a lean technologically inspired and technically-centered territorial instrumentality.

Nevertheless, with an average annual budget of just about \$1 million during these 9 years, PRIS has had numerous achievements. Here are just a few:

- We corrected Puerto Rico's mortality statistics, in collaboration with the National Center for Health Statistics (NCHS), to incorporate thousands of deaths that had been previously excluded from the Puerto Rico Department of Health's mortality data, and improved the precision, comparability, and efficiency of the cause-of-death classification methods used.

- In collaboration with the U.S. Bureau of Labor Statistics (BLS), PRIS eliminated an upward bias in Puerto Rico's Consumer Price Index, as had been reported by the Puerto Rico Department of Labor, which overestimated the rate of inflation by more than double during a 15-year period.
- PRIS has identified millions of dollars in recurrent cost savings for the Government of Puerto Rico in the purchase of data (Planning Board) and in the use of technology to identify waste, fraud, and abuse (Medicaid).
- PRIS has identified and documented a statistical bias in the formulas used by the Centers for Medicare and Medicaid Services (CMS) to compensate doctors in Puerto Rico for providing services under the Medicare Program, which tipped the scales against physicians, patients, and providers in Puerto Rico to the tune of about \$120 million annually between 2012 and 2016.
- By law, PRIS serves as liaison with federal statistical agencies, such as the U.S. Census Bureau (2020 Census, 2017 Puerto Rico Economic Census, Puerto Rico Community Survey, Foreign Trade Statistics, Annual Population Estimates, State Data Center, among other initiatives), the National Agricultural Statistical Service (2017 Agricultural Census), amongst many other agencies (Puerto Rico Act No. 154-2015). This was a significant departure in policy from the past, when these functions had been delegated to the Puerto Rico Planning Board.
- PRIS has provided training to several hundred government statisticians in Puerto Rico in the use of modern software for database management and statistical analysis.
- We developed and undertake a monthly Purchasing Managers Index survey in close collaboration with Puerto Rico's Manufacturing Association and with the technical assistance of the Federal Reserve Bank of New York to serve as a timely indicator of business conditions in Puerto Rico's largest economic sector.
- PRIS administers the Puerto Rico Inventory of Statistics (<http://www.statistics.pr>), a website that facilitates access to over 300 statistical products on Puerto Rico, as well as the Commonwealth's Open Data platform (<http://Data.PR.gov>) where Puerto Rico public entities can share their datasets with other agencies or the public.
- Currently, PRIS is developing the Interagency Validation Site for Granting Incentives for the Economic Development of Puerto Rico, as mandated under the recently approved Puerto Rico Act No. 187-2015. The Site will serve as a clearinghouse for information on the incentives and other tax benefits that private sector entities apply for, under a variety of economic development legislation. The result will be comprehensive information on the economic activity promoted by these incentives, which can serve for informed decision making about these policies, as well as improved detection of fraud, waste, and abuse.
- In accordance with its duty to promote transparency and to facilitate access to public data, PRIS launched a Financial Transparency initiative through which it publishes detailed

transaction-level data on its expenditures and incomes. See <http://www.TransparenciaFinanciera.PR>. During the past couple of months, we have been in negotiations with several Puerto Rico public entities to join the transparency effort by providing us their financial data on an ongoing basis.

Despite our efforts, during these past 10 years, the economic and fiscal crisis of Puerto Rico has only deepened, making more difficult efforts to raise the quality of Puerto Rico data and statistics.

II. Why do we need to raise the quality of Puerto Rico data and statistics as part of any solution to Puerto Rico's economic and fiscal crisis?

Let me give you an example that is very much to the point.

By the 1970s, personal consumption and retail trade became an important component of the economy of Puerto Rico. Puerto Rico did not participate in the Monthly Retail Trade Survey of the U.S. Census Bureau, so the Government of Puerto Rico began performing a Monthly Retail Trade Survey, in order to gauge the evolution of this important sector.

Between 2005 and 2007, this Survey underwent a benchmark methodological revision. However, implementation of the Survey methodology was incomplete and underfunded, in part as a result of the economic recession and fiscal crisis that was just getting started back then. Nevertheless, results were published every month since then.

After the revision, the technical staff of the Survey lacked clear guidance as to what to do when a sampled establishment closed and stopped reporting sales. As a result, the sales values of many closed establishments were imputed using historical data, which in part was responsible for generating an overestimation of the total estimated value of retail sales in Puerto Rico.

In 2007, in order to deal with its fiscal crisis, Puerto Rico established a retail sales tax for the first time. When the Government and the investor community tried to estimate how much money the new sales tax would raise, they turned to Puerto Rico's Monthly Retail Trade Survey.

By 2009, PRIS had begun operations and our efforts were geared towards educating the Government of Puerto Rico about the need to perform a new benchmark revision of the Survey.

In 2013, the Government requested that PRIS perform such a revision.

In 2014, PRIS internal research anticipated the possibility of a significant overestimation. It took the Government of Puerto Rico 3 years to implement the new methodology to prove whether we were right.

The results, which were announced just last week, suggest that the estimated value of retail sales in Puerto Rico was overestimated by about one third. This situation may have lead creditors to overestimate the revenue that the sales tax could raise.

While we are excited about the announcement, much work remains to be done, and it is unacceptable that Puerto Rico allowed this problem to accumulate for so long.

With inaccurate retail sales data, not only did investors lend Puerto Rico more money than perhaps they should have, but many businesses made incorrect investment decisions in the retail trade industry.

At the end of the day, low-quality statistics mean that all stakeholders face greater uncertainty about the fundamentals of Puerto Rico's economy, making it difficult to make informed policy and investment decisions, thereby generating less growth than potential.

III. Report of the Congressional Task Force on Economic Growth in Puerto Rico

The Puerto Rico Oversight, Management and Economic Stabilization Act (PROMESA) of 2016 established the Congressional Task Force on Economic Growth in Puerto Rico. In December 2016, the Task Force rendered its final report, which included a detailed analysis of the Federal Statistical Programs in which Puerto Rico is excluded.

We commend the Task Force for taking seriously the impact that Federal Statistical Programs can have on the way the Puerto Rico debate is shaped. We also believe that there are important steps that Congress can take to improve the quality and availability of the statistics prepared by the Federal Government with regards to Puerto Rico.

For instance, this year, with sufficient funding, Puerto Rico could have been included in the Census of Governments 2017. This important program of the U.S. Census Bureau gathers data on the structure, employees, and finances at all levels of government every 5 years, and is an essential source on comparable benchmark statistics for credit markets.

Puerto Rico last participated in the Census of Governments in 1982, which means Puerto Rico's creditors and related stakeholders lack key data that would allow them to compare the financial challenges faced by the Government of Puerto Rico vis-à-vis state and local governments across the United States.

In fact, in its final report, the Congressional Task Force on the Economic Growth in Puerto Rico recommended that:

“(T)he Census Bureau take all reasonable steps to include Puerto Rico in its federal statistical programs, including the quinquennial Census of Governments (and its associated annual and quarterly surveys and summaries regarding public employment and payroll, public pensions, state government tax collections, and state and local government finances); the Survey of Business Owners and Self-Employed Persons (SBO); the Building Permits Survey (BPS), which is currently published monthly for the states but only annually for Puerto Rico; and the Quarterly Workforce Indicators (QWI).”

However, despite these efforts last year, Puerto Rico was once again excluded from the Census of Governments, this time for the present year 2017, yet again leaving the investor community with incomplete information about the risks and potential benefits associated with investing in Puerto Rico.

The Congressional Task Force on the Economic Growth in Puerto Rico also recommended the inclusion of Puerto Rico in numerous other surveys, such as the American Housing Survey (AHS), the Construction Progress Reporting Survey (CPRS), the Housing Vacancy Survey (HVS), the Manufactured Housing Survey (MHS), and the Value of Construction Put in Place Survey (VIP), amongst others. These surveys are essential to gaining a better understanding of how Puerto Rico's construction sector is contributing to economic growth, as well as informed economic policymaking. Just last year, the exclusion of Puerto Rico from the American Housing Survey meant federal policymakers could not estimate how many houses in Puerto Rico had air conditioning, which impaired their ability to determine where and how quickly the Zika virus would spread in Puerto Rico.

Puerto Rico is also excluded from statistical programs in a diverse set of other federal agencies, such as the National Center for Education Statistics, Bureau of Justice Statistics, Substance Abuse and Mental Health Services Administration, National Center for Health Statistics, and Energy Information Administration, amongst others. These programs provide essential data to understand the challenges faced by key sectors in Puerto Rico, including education, health, and energy. The Task Force also recommended actions geared towards including Puerto Rico in these programs.

In the case of the National Agricultural Statistical Service, Puerto Rico is included in only 1 of its over 50 surveys: the quinquennial Agricultural Census. As a result, Puerto Rico lacks reliable annual data on its agricultural sector. This is quite unfortunate as Puerto Rico's tropical climate is a relatively unique asset within the United States, which allows farming all-year round. In order to maximize the benefit obtained from this unique agricultural asset, farmers in Puerto Rico, just like their counterparts' stateside, need annual data on crop yields, organic agriculture, and dairy products, amongst many others.

In fact, given the current state of affairs, even if agriculture turned around and began boosting Puerto Rico's economic growth, it is very possible that such a transition would go largely unmeasured and unnoticed for 5 years until the next Agricultural Census, and it would take an additional 5 years to confirm the possibility of an upward trend.

Unfortunately, without action from the Federal Government, Puerto Rico's crisis of confidence will continue to generate a vicious cycle in which low-quality data and statistics lead local policymakers to invest even less resources in improving the data, which in and of itself also reduces the quality of the data.

In fact, despite calls from the Congressional Task Force on Economic Growth directed to the Government of Puerto Rico to consider appropriating a level of funding to PRIS that is commensurate with its important responsibilities, the budget that was recently approved by the Puerto Rico Fiscal Oversight and Management Board reduced funding for PRIS. In addition, budgets were cut for other

important Puerto Rico entities that are responsible for producing key economic statistics for Puerto Rico.

IV. Fiscal Oversight and Management Board

Good governance requires a continuous flow of universally accessible data and information that can create a level-playing field where all stakeholders can negotiate on equal terms. Finding common ground is made more difficult when data about society's problems and potential solutions are made more difficult to obtain and use.

In fact, in Puerto Rico's case this problem is quite extreme. Not only do we lack transparent information to convince the citizenry of the need to accept reductions in government services, but we also lack credible information to convince our creditors of our own illiquid financial situation.

With this concern in mind, in October 2016, we wrote the Puerto Rico Fiscal Oversight and Management Board (Board) with several recommendations that can facilitate improvements to the quality of the financial reporting of the Government of Puerto Rico. Amongst others, we recommended that the Board:

- 1) Empower the Puerto Rico Institute of Statistics to serve as technical advisor for the analysis and processing of agency-reported data

Many of the public entities of the Government of Puerto Rico lack the technical human capital to analyze data and statistics in a way that is useful for informed decision-making. These entities require a technical advisor that can help turn their agency information into the data requested by the Board. PRIS stands ready to assist the Board in this effort. We believe that similar efforts, such as the StateStat program in Maryland, a state-level performance management system, can be implemented in Puerto Rico.

- 2) Require the use of a common chart of accounts by all entities of the Government of Puerto Rico

The Government of Puerto Rico has more than 100 component units, and a significant portion of these units are outside of the central government's accounting system. As a result, the financial information is contained in separate systems using separate charts of accounts. This complicates and delays the preparation of Puerto Rico's Annual Financial Statements.

While the Puerto Rico Treasury does use a common chart of accounts for all units within its accounting system, the Government of Puerto Rico has, as far we know, never required the remaining component units to use this common chart of accounts. So, one simple step that the Board can take is to take needed action where the Government of Puerto Rico has not: require the use of a common chart of accounts by all component units.

- 3) Require Puerto Rico public entities to join the Financial Transparency initiative of the PRIS

In order to improve the transparency of the finances of the Government of Puerto Rico, PRIS developed a Financial Transparency website where public entities can publish transaction-level data

on their expenditures and incomes. We have invited all Puerto Rico public entities to make available their financial data through the Financial Transparency website at no cost. So far, only a limited number of entities have joined. So, we take this opportunity to recommend Congress step in to compel the Government of Puerto Rico to make its financial reporting more transparent through PRIS's Financial Transparency initiative.

In fact, the Financial Transparency initiative of PRIS can also help the Puerto Rico Fiscal Oversight and Management Board be fully transparent about how it is using Puerto Rico taxpayers' money. A lack of financial transparency is at the heart of Puerto Rico's fiscal and economic crisis. In order to lead Puerto Rico out of its dire financial situation, the Board must lead by example and show that it is ready to operate under the highest standards of transparency and ethics.

To date, as far as we know, the Board has not taken any of these common sense steps to help solve the serious quality issues in Puerto Rico's financial reporting.

V. Conclusions

Puerto Rico's economy finds itself at a historic juncture. Puerto Rico can have a prosperous and productive economy with a business-friendly climate. But, all stakeholders have to put their part.

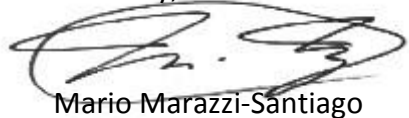
First and foremost, the Government of Puerto Rico has to do its part. This includes numerous technical objectives that need to be achieved so that Puerto Rico's economic statistics can reestablish their credibility in financial markets and so that they can be fruitfully used for economic policymaking.

As long as PRIS is allowed to function without being beholden to political or economic interests, we stand ready to assist the Government of Puerto Rico in achieving successful implementation of these objectives or to implement these objectives on our own. While the current state of affairs allows us to continue this important work, the truth is that PRIS continues to receive appropriations that are far less than needed to complete its mission in a timely fashion, and it continues to face challenges to its operation as a public entity that is independent from other political and economic interests.

At the same time, the Federal Government has to do its part, and Congress must lead the way. In fact, under the current arrangement, Congress has an essential role to play in determining the future of the economy of Puerto Rico. It would be a mistake to shirk this responsibility. We have mentioned several ways that the Federal Government can make a significant difference in the quality of the data and the statistics available for investing and for policymaking in Puerto Rico.

Thank you for the opportunity to share these thoughts with you. If you have any questions, please feel free to reach me by phone at (787) 209-0906 or by email at mario.marazzi@estadisticas.pr.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mario Marazzi-Santiago', is written over a circular stamp or seal.

Mario Marazzi-Santiago

cc. Dr. Antonio J. Fernós Sagebien, President, Board of Directors, Puerto Rico Institute of Statistics

A Jones Act Experiment for Puerto Rico's Economic Recovery

Remarks at

A Discussion on The Future of Puerto Rico's Economy

Tuesday, July 18, 2017

2360 Rayburn House Office Building

By

Juan Lara, Ph.D.

Professor

Department of Economics

University of Puerto Rico, San Juan

Dr. Juan Lara is professor of Economics at the University of Puerto Rico in San Juan and a professional economic consultant to private and public entities in Puerto Rico. He served in the economic advisory committee to former Governor Luis Fortuño and was involved in policy evaluation projects in the administration of Alejandro García Padilla. His research focuses on the economy of Puerto Rico. He is a member of the Editorial Board of Caribbean Studies, a scholarly journal at the University of Puerto Rico. Dr. Lara received his M.A. and Ph.D. in Economics from Stony Brook University, of the SUNY system.

Since early in the year 2006, Puerto Rico's economy has been in a steep decline. We need to break the fall, level off and start climbing again. With PROMESA, the US Congress provided tools to break the fall and level off, but not to put the economy back on a path of sustainable growth and continued economic development. There is a growing consensus in Puerto Rico that PROMESA is only half of a promise for the island's future.

It cannot be taken for granted that PROMESA will be entirely successful in stabilizing the island's economy, which is only the first phase of the economic reconstruction project. But even if the government and the fiscal oversight board, working together and with the courts, manage to obtain significant relief of the public sector's debt burden and to achieve a permanent balance of the public sector's financial accounts, there is still a chance that we will be left with a crippled economy. In other words, there is a chance that PROMESA will fail in the longer term, if we measure success by the ability to restore sustained economic growth.

It is best for all of us, including Congress, to avoid that scenario. Now, the FOB cannot be expected to pay a lot of attention to the issue of economic development at the present time. In fact, the Board's president admitted as much in a recent interview in San Juan. It is left to other actors, public and private, in Puerto Rico and here on the Mainland, to design and implement an effective economic development program.

Several of the speakers here today have already contributed ideas on this subject, and continue to work on new proposals. I agree with many of those ideas, but will not address them at this time. Instead, I will focus my remarks on the Jones Act, and, to a lesser extent, on the impending crisis at the University of Puerto Rico.

There have been a number of studies on the effects of the Jones Act on the cost of transportation paid by industries and ultimately consumers in Puerto Rico. The findings of these studies are not precise and there are substantial differences in the final numbers produced by different researchers. But there is a near consensus that the Jones Act is bad for Puerto Rico's industries and consumers, and a near unanimous call for its removal.

In a 2012 study of the Federal Reserve Bank of New York, the bank cites data showing that shipping costs between the US East Coast and Puerto Rico can be twice as much as those between the US East Coast and the Dominican Republic or Jamaica, two locations in our own corner of the Caribbean neighborhood. The Federal Reserve Bank goes on to propose an economic experiment: "to seek a temporary exemption from the Jones Act, for instance for five years, in order both to evaluate whether or not these restrictions really are a substantial cause of elevated shipping costs and to allow for assessment of the costs and benefits of a permanent exemption."

Similar complaints and proposals have been presented by other entities. For example, less than a year ago, the Puerto Rico Food Marketing and Distribution Chamber (MIDA, by its Spanish acronym), told the Congressional Task Force on Economic Growth in Puerto Rico that the Jones Act imposes a legally mandated cartel on shipping to the Island, creating an oligopoly that is not effectively supervised or regulated by any federal authority. Economic theory and historical experience suggest that greater competition can be expected to result in lower costs.

Congress should give serious consideration to the experiment proposed by the Federal Reserve Bank of New York. If, as the US Government Accountability Office said in a 2013 study, "...The

effects of modifying the application of the Jones Act for Puerto Rico are highly uncertain,” then an experiment with temporary suspension of the Act is likely the best way to overcome such uncertainty, certainly better than the many non-conclusive studies that have been done, including the one by GAO.

Before closing, a word about the University of Puerto Rico, a star at risk of being swallowed by the black hole of the government’s financial crisis. I am a full professor there, so mine is a biased view. But it is a fact that social mobility, and the creation of a professional middle class in Puerto Rico, owe much to this institution of higher education, which is now 114 years old. The budget for the current fiscal year slashes \$202 million from the University’s general fund, an unprecedented cut that economist Joseph Stiglitz described as “slash and burn” austerity. To put it in perspective, note that the 23% reduction in the local government’s funding for the University cancels out 71% of the \$284 million the institution expects to receive in federal funds. And further cuts are planned for coming years.

Young people in Puerto Rico today face terrible obstacles to professional and economic achievement. The affordability of higher education is one; the lack of jobs in another; and the proposal to reduce their wages is almost like adding insult to injury. More than any other generation, they will be under great pressure to leave the island for greener pastures. Maybe Congress can look at ways to increase funding for research at the University and to help to keep college education affordable for thousands of young Puerto Ricans.

Debt, Poverty and Crisis:
Puerto Rico's Unfolding Economic, Fiscal and Demographic Death Spiral

Presentation at Discussion on "The Future of Puerto Rico's Economy"
2360 Rayburn House Office Building
July 18, 2017

By

Hector R. Cordero-Guzman, Ph.D.
Professor
Marxe School of Public and International Affairs
Baruch College
City University of New York

Dr. Héctor R. Cordero-Guzmán is a Professor at the Austin Marxe School of Public and International Affairs at *Baruch College of the City University of New York*. He is also a Professor in the Ph.D. Programs in Sociology and in Urban Education at the *City University of New York (CUNY) Graduate Center*. Dr. CorderoGuzman has worked as a Program Officer in the Economic Development and the Quality Employment Units of the Asset Building and Community Development Program at *The Ford Foundation* and has served on the board of directors of several non-profit organizations. Dr. Cordero-Guzman received his M.A. and Ph.D. degrees in Sociology and Demography from *The University of Chicago*.

The comments and views expressed are the sole responsibility of the author. All disclaimers apply.

I. Puerto Rico is in Crisis

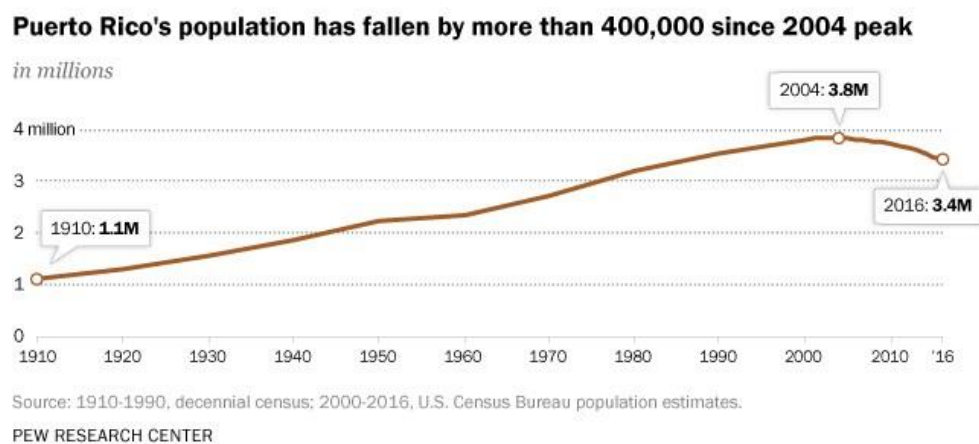
By now it is broadly acknowledged in Puerto Rico and beyond that the island is in a deep crisis.

The current crisis in Puerto Rico has various dimensions and manifestations:

- There is an economic dimension reflected in reductions in employment and flattening of incomes;

- a fiscal dimension manifested in high levels of government debt;
- a demographic and social dimension reflected in persistent poverty, declining population, and increased outmigration;
- a psychological dimension manifested in increasing cynicism, pessimism, and despair;
- and, a political dimension manifested by increasing calls among broad sectors of Puerto Rican population to make the relationship between the United States and Puerto Rico more effective.

Figure 1 shows the steady increase in Puerto Rico's population over the past century, the peak at 3.8 million persons around 2004, and the dramatic decline of more than 400 thousand persons (or more than 10% of the Island's population) in the last decade. **Figure 1⁸**



The interconnected nature of economic, fiscal, and demographic change has put Puerto Rico in a death spiral where its very viability and survival as a state, country, or territory is at stake. You may think I am being hyperbolic or overly dramatic, but a few facts about the collapse in employment; the flat and precarious wages and incomes; and high levels of poverty, particularly among children, should disabuse you of any such notions.

Let me start with the economic collapse...

II. The Economic Collapse

Puerto Rico has made significant advancements in education and human capital over the last seven decades, due in large part to investments in the University of Puerto Rico. Over time, the population on the Island has been able to catch up with many states in terms of education levels and today persons 18 to 25 years of age in Puerto Rico have a lower dropout rate than about half the US states; a high proportion attending college; and a college graduation rate that is better than six or seven US

⁸ From Pew Hispanic Center at <http://www.pewresearch.org/fact-tank/2017/03/29/key-findings-about-puerto-rico/>

states. If there is one indicator where Puerto Rico and the US have converged over the last century it is in education levels⁹.

Figure 2 shows that if we include persons between 25 and 65 years of age in Puerto Rico, close to 19.4% do not have a high school degree or GED, about 28% have a high school degree or GED only, and close to 52.6% have either some college experience (14.3%), an Associate Degree (10.9%), a Bachelors Degree (19.9%), or more than a Masters (7.7%).

Figure 2¹⁰

Education Levels in Puerto Rico for Presons 25 to 65 Years of Age (Puerto Rico Community Survey, 2015 [5yr])					
	Frequency	Percent	Valid Percent	Cumulative Percent	
LT 1	35177	1.9	1.9	1.9	19.4%
1-8	167900	9.0	9.0	10.9	
9-11	137304	7.4	7.4	18.3	
12 No diploma	20288	1.1	1.1	19.4	28%
HS Diploma	464004	25.0	25.0	44.4	
GED	55899	3.0	3.0	47.4	
Some College	266400	14.3	14.3	61.7	52.6%
Associate	199262	10.7	10.7	72.4	
Bachelors	369409	19.9	19.9	92.3	
Masters +	142915	7.7	7.7	100.0	
Total	1858558	100.0	100.0		

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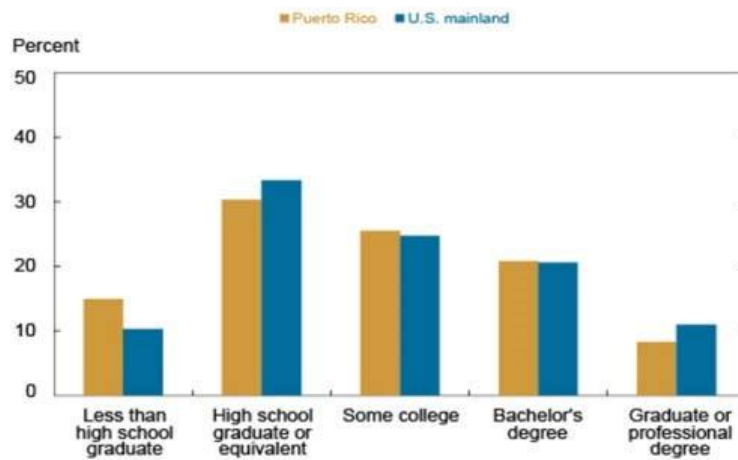
Comparing Puerto Rico's education levels with the average for the entire United States (in Figure 3) shows that while Puerto Rico has a higher proportion of high school drop-outs and a smaller proportion of college graduates the differences are close to about 5 percentage points and relatively modest considering the magnitude of the education gap between Puerto Rico and the United States at the beginning of the 20th century and the significant differences in state education resources, investments, and family poverty levels.

⁹ For a more detailed discussion of education change in Puerto Rico see Ladd, Helen F., and Francisco L. Rivera-Batiz. 2006. "Education and Economic Development." Chapter 5 in Collins, Bosworth and Soto-Class (Eds.) *The Economy of Puerto Rico: Restoring Growth*. Washington, DC: Brookings Institution and Center for the New Economy.

¹⁰ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2015

Figure 3¹¹

Educational Attainment in Puerto Rico
and the U.S. Mainland, 2013



Source: U.S. Census Bureau.
Note: Includes people 25-54 years old.

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Significant progress in education levels and human capital in Puerto Rico's population, however, have not translated into more secure and stable employment; better pay and wages; growing incomes; and significantly lower poverty levels in Puerto Rico.

Since 2006, as Figure 4 shows, the Puerto Rican economy and labor market have collapsed from a peak of over 1.4 million persons in the labor force to slightly over 1.1 million in 2017.

¹¹ For further discussion see <http://libertystreeteconomics.newyorkfed.org/2016/08/human-capital-and-education-in-puerto-rico.html>

Figure 4⁵
labor force



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Source: Bureau of Labor Statistics (BLS)

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The collapse in the number of persons employed was even steeper from a peak of about 1.3 million persons employed around 2006 to close to 1 million around 2017.

Figure 5¹²
employment



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Source: Bureau of Labor Statistics (BLS)

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¹² From Bureau of Labor Statistics <https://data.bls.gov/pdq/SurveyOutputServlet>

Puerto Ricans want to work and look for work as evidenced by the fact that the number of persons unemployed and looking for work has been over 125,000 persons for the last 40 years--sometimes reaching up to 225,000 persons looking for some form of employment.

Figure 6⁷
unemployment



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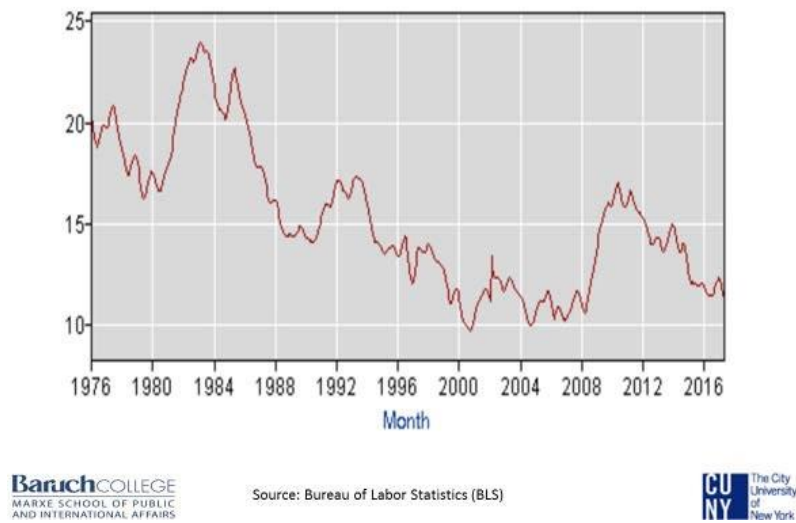
Source: Bureau of Labor Statistics (BLS)

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The unemployment rate in Puerto Rico has been consistently over 10% and has gone down in recent years but not so much because people have found employment on the island but because they have looked for work elsewhere or have been discouraged in their efforts to find adequate employment, have joined the informal economy doing regular or occasional work, or have dropped out of the labor force.

Figure 7⁸
unemployment rate



III. What to Do and Why Lowering Wages Will Not Work?

The collapse of the labor market in Puerto Rico and difficulties in finding adequate employment are at the core of Puerto Rico's economic, fiscal, and demographic challenges.

Some propose cuts to health care, lowering the minimum wage, and cuts to social assistance programs but the only thing that these kinds of cuts will succeed in doing is increasing the poverty, inequality and misery of the US citizens that live in the US territory of Puerto Rico.

Puerto Rico already has the lowest wages in the nation, by far, at \$9.42 or 56% of the nation's median hourly wage, as seen at the bottom of Figure 8, of \$16.81. Puerto Rico's median hourly wage is 68% of Mississippi, the state with the lowest median hourly wages at \$13.76 per hour. In fact, Puerto Rico's median hourly wages are lower than the US Virgin Islands (\$13.36) and Guam (\$12.37). Puerto Rico's wage gap with the US states has persisted over time in spite of convergence in human capital levels between Puerto Rico and the US and, particularly, convergence in education levels between Puerto Rico and residents in the poorest, mostly southern, US states.

Figure 8¹³

State/territory	Median hourly wages	PR Gap	Average hourly wages	PR Gap	Bottom 10 rate	PR Gap	Top 90 rate	PR Gap
District of Columbia	\$ 21.20	30%	\$ 27.70	26%	\$ 11.42	96%	\$ 72.11	32%
Alaska	\$ 21.73	43%	\$ 28.86	31%	\$ 10.28	75%	\$ 45.07	50%
Massachusetts	\$ 21.46	44%	\$ 27.70	46%	\$ 9.00	81%	\$ 52.66	42%
Connecticut	\$ 20.67	46%	\$ 28.47	50%	\$ 9.40	83%	\$ 49.06	47%
Washington	\$ 19.70	46%	\$ 26.26	52%	\$ 10.16	77%	\$ 47.44	42%
New York	\$ 19.05	46%	\$ 26.70	46%	\$ 9.08	86%	\$ 51.83	44%
Maryland	\$ 19.03	46%	\$ 26.70	51%	\$ 9.08	86%	\$ 50.43	45%
New Jersey	\$ 19.00	46%	\$ 26.62	51%	\$ 9.20	85%	\$ 49.29	45%
California	\$ 18.84	50%	\$ 25.91	51%	\$ 9.15	86%	\$ 51.04	44%
Puerto Rico	\$ 18.45	51%	\$ 23.83	58%	\$ 9.03	87%	\$ 44.45	51%
Minnesota	\$ 18.30	51%	\$ 23.23	57%	\$ 8.88	87%	\$ 43.28	53%
Colorado	\$ 18.28	52%	\$ 23.87	58%	\$ 9.07	88%	\$ 49.31	50%
Wyoming	\$ 18.16	52%	\$ 21.80	51%	\$ 9.06	88%	\$ 38.70	62%
Virginia	\$ 18.08	52%	\$ 24.40	54%	\$ 8.73	90%	\$ 48.68	47%
Delaware	\$ 18.03	52%	\$ 23.91	58%	\$ 9.88	87%	\$ 44.82	51%
Hawaii	\$ 18.01	52%	\$ 22.23	60%	\$ 9.03	87%	\$ 40.44	58%
North Dakota	\$ 17.79	53%	\$ 21.20	62%	\$ 9.04	84%	\$ 38.96	63%
Illinois	\$ 17.59	54%	\$ 23.46	58%	\$ 9.08	88%	\$ 44.83	51%
New Hampshire	\$ 17.51	54%	\$ 22.83	58%	\$ 8.88	87%	\$ 41.30	58%
Oregon	\$ 17.50	54%	\$ 22.55	58%	\$ 9.47	83%	\$ 41.84	55%
Arkansas	\$ 17.39	54%	\$ 21.41	62%	\$ 9.79	80%	\$ 39.74	62%
Pennsylvania	\$ 17.13	58%	\$ 22.00	60%	\$ 8.78	89%	\$ 40.39	59%
Michigan	\$ 16.70	58%	\$ 21.70	61%	\$ 8.88	90%	\$ 40.24	59%
Wisconsin	\$ 16.52	57%	\$ 20.82	64%	\$ 8.88	90%	\$ 39.93	62%
Ohio	\$ 16.47	57%	\$ 21.11	63%	\$ 8.77	89%	\$ 39.64	62%
Alabama	\$ 16.46	57%	\$ 21.43	62%	\$ 8.63	89%	\$ 40.17	57%
Maine	\$ 16.29	58%	\$ 20.28	68%	\$ 9.92	88%	\$ 38.26	64%
Utah	\$ 16.20	58%	\$ 20.94	63%	\$ 8.71	90%	\$ 38.42	59%
Texas	\$ 16.18	58%	\$ 21.79	61%	\$ 8.48	93%	\$ 41.42	58%
Nevada	\$ 16.13	58%	\$ 20.34	69%	\$ 8.82	91%	\$ 38.79	62%
Iowa	\$ 16.01	59%	\$ 19.77	67%	\$ 8.62	91%	\$ 34.78	69%
Kansas	\$ 16.03	60%	\$ 20.20	68%	\$ 8.68	91%	\$ 36.14	65%
Georgia	\$ 15.79	60%	\$ 21.46	62%	\$ 8.46	93%	\$ 40.57	58%
Missouri	\$ 15.76	60%	\$ 20.57	64%	\$ 8.50	92%	\$ 37.69	69%
West Virginia	\$ 15.68	60%	\$ 19.70	67%	\$ 8.91	91%	\$ 35.20	68%
Indiana	\$ 15.63	60%	\$ 19.84	68%	\$ 8.46	92%	\$ 35.73	64%
North Carolina	\$ 15.63	60%	\$ 20.31	64%	\$ 8.48	92%	\$ 35.20	64%
Kentucky	\$ 15.50	62%	\$ 19.25	69%	\$ 8.44	93%	\$ 34.13	67%
New Mexico	\$ 15.09	62%	\$ 20.31	68%	\$ 8.05	94%	\$ 37.68	60%
Louisiana	\$ 15.00	62%	\$ 19.32	68%	\$ 8.32	94%	\$ 34.59	68%
Oklahoma	\$ 15.17	62%	\$ 19.84	67%	\$ 8.42	93%	\$ 35.25	64%
Montana	\$ 15.15	62%	\$ 19.17	69%	\$ 8.77	89%	\$ 34.00	67%
Tennessee	\$ 15.02	62%	\$ 19.85	68%	\$ 8.43	93%	\$ 35.12	65%
Florida	\$ 14.83	63%	\$ 20.11	68%	\$ 8.09	96%	\$ 35.08	62%
Idaho	\$ 14.83	63%	\$ 19.12	68%	\$ 8.43	93%	\$ 34.93	66%
Arizona	\$ 14.83	64%	\$ 19.86	67%	\$ 8.20	94%	\$ 35.04	63%
South Carolina	\$ 14.74	64%	\$ 19.03	70%	\$ 8.32	94%	\$ 34.49	68%
South Dakota	\$ 14.58	66%	\$ 17.56	74%	\$ 8.08	96%	\$ 33.26	73%
West Virginia	\$ 14.14	67%	\$ 18.21	73%	\$ 8.24	95%	\$ 32.87	70%
Arkansas	\$ 14.01	67%	\$ 18.24	73%	\$ 8.23	95%	\$ 32.55	70%
Mississippi	\$ 13.76	68%	\$ 17.87	75%	\$ 8.22	96%	\$ 32.91	74%
Virgin Islands	\$ 13.36	71%	\$ 18.61	79%	\$ 8.27	95%	\$ 29.28	78%
Oman	\$ 12.37	76%	\$ 18.06	83%	\$ 8.01	96%	\$ 28.72	79%
Puerto Rico	\$ 9.42	100%	\$ 13.23	100%	\$ 7.82	100%	\$ 22.73	100%
Total	\$ 18.81	58%	\$ 21.82	61%	\$ 8.83	89%	\$ 39.80	57%

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Dr. Hector Cordero-Guzman
(hcordero@aol.com)

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Source: BLS

¹³ From Bureau of Labor Statistics <https://www.bls.gov/oes/>

Figure 9¹⁴

Wage Levels in Puerto Rico (PRCS 5yr 2010-2014)				
Wage per Hour	Population	Percentage	Valid Percent	Cumulative Percent
\$7.25	327,434	9.0	27.6	27.6
\$7.26-\$7.50	82,503	2.3	6.9	34.5
\$7.51-\$8.00	60,114	1.7	5.1	39.6
\$8.01-\$8.50	43,975	1.2	3.7	43.3
\$8.51-\$9.00	46,983	1.3	4.0	47.2
\$9.01-\$9.50	35,183	1.0	3.0	50.2
\$9.51-\$10.00	38,576	1.1	3.2	53.5
\$10.01-\$12.00	118,214	3.2	10.0	63.4
\$12.01-\$14.00	86,149	2.4	7.3	70.7
\$14+	348,244	9.6	29.3	100.0
In Labor Force	1,187,375	32.6	100.0	
Not in Labor Force	1,719,090	47.2		
Not Eligible Age	732,500	20.1		
Total Not Earning	2,451,590	67.4		
Total Population	3,638,965	100.0		

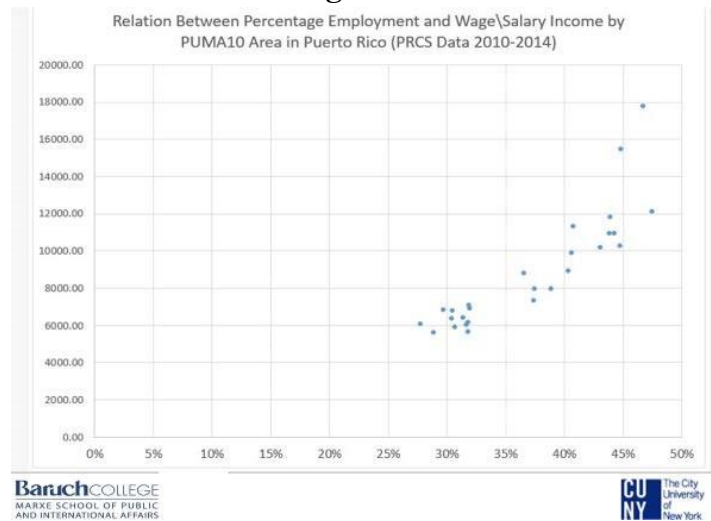
7/13/2017 Prepared by: Hector Cordero-Guzman (hcordero@aol.com)

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Areas in Puerto Rico with higher wages also tend to have higher employment--as shown in Figure 10. This suggests that areas with higher wages are associated with higher employment levels.

Figure 10¹⁵



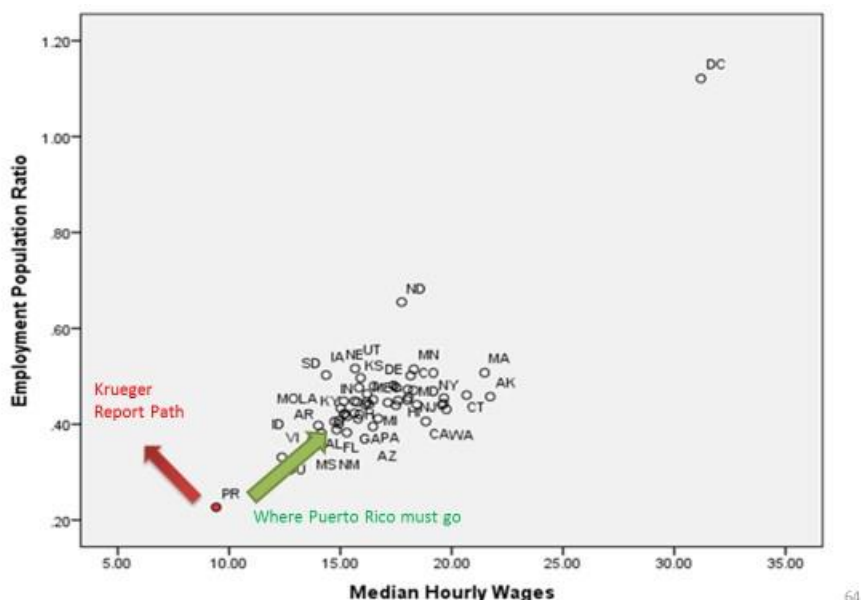
And, the observed positive relationship between wages and employment also obtains when we examine data at the state level. States with higher wages also have higher levels of employment suggesting that the path to more employment goes through higher wages not through lowering hourly wages for workers as suggested by the Krueger Report¹⁶.

¹⁴ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2014

¹⁵ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2014

¹⁶ Krueger, Anne O, Ranjit Teja and Andrew Wolfe. 2015. Puerto Rico: A Way Forward. San Juan: Report to the Government of Puerto Rico. ¹³ Author's calculations and estimates using state level wages and employment data from the Bureau of Labor Statistics (BLS) for 2014.

Figure 11¹³



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Source: BLS

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Puerto Ricans want to work and this is evidenced by the fact that: a) over 125,000 are unemployed and looking for work, b) close to 17% of workers, about 175,000 according to my estimates, worked full-time full-year and earned below poverty wages; and c) there are tens of thousands of Puerto Ricans migrating to the continental United States every year in search of employment.

Puerto Rico's main employment problem & challenge is not the wages are too high but that the wages are too low and many in the population often have to shift between formal and informal employment, or have multiple jobs, in order to be able to survive and make ends meet.

High unemployment also means that persons with increasing levels of education compete with many others for a limited number of scarce low paying jobs. Those with more education displace those with less education but they are not doing work that fully uses their human capital and they soon realize that they are not earning what their education level would suggest they should make or what they would earn if they moved to the continental United States.

IV. High Poverty Levels Accentuate the Crisis in Puerto Rico

Low wages and incomes mean that poverty in Puerto Rico is very high compared to the 50 states¹⁷. The poverty rate in Puerto Rico in 2015 was about 46.1% compared to a 14.7% rate for the United States overall and 22% for Mississippi which is the poorest state. This means that poverty in Puerto Rico is more than double the level of the poorest US state.

¹⁷ For a detailed analysis of poverty in Puerto Rico see Cordero-Guzman, Hector, Raul Figueroa and Alberto Velazquez (2016) Poverty in Puerto Rico: A Socio-Economic and Demographic Analysis. San Juan, PR: Inter-American University Press and Human Services Research Partnerships Puerto

Rico. Available at <https://www.dropbox.com/s/rj26lxcywcwqdq/Tomo%20IV-Cordero-Figueroa-Velazquez-PR-Poverty-8-16.pdf?dl=0> ¹⁵
From US Census Bureau <https://www.census.gov/content/dam/Census/library/publications/2016/demo/acsbr15-01.pdf>

Figure 12¹⁵

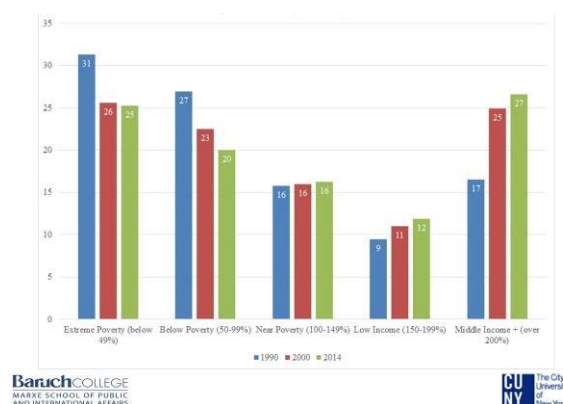
Table 1.
Number and Percentage of People in Poverty in the Past 12 Months by State and Puerto Rico: 2014 and 2015
 (For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/programs-surveys/acs/technical-documentation/code-list.html)

Area	Below poverty in 2014				Below poverty in 2015				Change in poverty (2015 less 2014)			
	Number ¹	Margin of error ² (s)	Per-cent-ages ³	Margin of error ² (s)	Number ¹	Margin of error ² (s)	Per-cent-ages ³	Margin of error ² (s)	Number ¹	Margin of error ² (s)	Per-cent-ages ³	Margin of error ² (s)
United States	48,208,387	241,557	15.5	0.1	46,163,077	275,061	14.7	0.1	*-2,065,310	386,071	*-4.8	0.1
Alabama	910,175	25,515	19.3	0.5	876,018	23,918	18.5	0.5	-34,159	34,972	*-0.8	0.7
Alaska	80,927	6,821	11.2	0.9	74,532	5,835	10.3	0.8	-6,396	8,977	-0.9	1.2
Arizona	1,199,061	26,607	18.2	0.4	1,159,043	29,822	17.4	0.4	*-40,018	39,968	*-0.9	0.6
Arkansas	543,882	15,436	18.9	0.5	550,508	17,473	19.1	0.6	6,626	23,315	0.2	0.8
California	6,559,098	64,461	18.4	0.2	5,891,678	66,927	15.3	0.2	*-367,420	92,850	*-1.1	0.3
Colorado	630,786	21,138	12.0	0.4	619,549	20,501	11.5	0.4	-17,237	29,447	-0.6	0.6
Connecticut	574,772	16,369	10.8	0.5	566,909	15,789	10.5	0.5	-7,863	22,743	-0.2	0.7
Delaware	113,508	7,940	12.5	0.9	114,360	9,567	12.4	1.0	852	12,433	-0.1	1.3
District of Columbia	110,668	7,793	17.7	1.2	110,500	8,628	17.3	1.4	-168	11,828	-0.4	1.8
Florida	3,211,816	59,681	16.5	0.3	3,116,886	47,330	15.7	0.2	*-94,729	76,171	*-0.8	0.4
Georgia	1,797,969	39,080	18.3	0.4	1,694,988	33,156	17.0	0.3	*-102,981	51,250	*-1.3	0.5
Hawaii	156,729	10,340	11.4	0.9	147,984	8,330	10.6	0.8	-8,745	13,404	-0.7	1.0
Idaho	237,981	11,550	14.8	0.7	245,551	13,820	15.1	0.9	7,570	18,211	0.3	1.1
Illinois	1,804,535	31,908	14.4	0.3	1,703,258	35,831	13.6	0.3	*-101,277	47,979	*-0.8	0.4
Indiana	874,218	25,464	15.2	0.4	935,191	24,656	14.5	0.4	*-41,007	35,445	-0.7	0.6
Iowa	367,816	14,257	12.2	0.5	367,414	13,279	12.2	0.4	-402	19,468	-0.1	0.6
Kansas	382,712	13,369	13.6	0.5	388,979	13,898	13.0	0.5	-13,833	19,284	-0.5	0.7
Kentucky	817,542	22,333	19.1	0.5	794,055	21,101	18.5	0.5	-23,487	30,725	-0.6	0.7
Louisiana	696,524	23,296	19.8	0.5	689,946	24,422	19.6	0.5	-6,578	33,751	-0.2	0.7
Maine	182,791	8,933	14.1	0.7	172,620	9,255	13.4	0.7	-10,171	12,865	-0.8	1.0
Maryland	589,818	21,635	10.1	0.4	570,776	21,279	9.7	0.4	-19,042	30,346	-0.4	0.6
Massachusetts	757,235	20,233	11.6	0.3	752,071	21,473	11.5	0.3	-5,164	29,503	-0.2	0.4
Michigan	1,698,844	29,356	16.2	0.3	1,599,646	27,659	15.8	0.3	-99,198	39,540	-0.4	0.4
Minnesota	611,354	19,609	11.5	0.4	546,431	16,392	10.2	0.3	*-64,923	25,558	*-1.3	0.5
Mississippi	623,113	19,212	21.5	0.6	637,138	21,554	19.7	0.7	14,015	28,218	0.5	0.9
Missouri	906,628	22,347	15.5	0.4	875,495	21,660	14.2	0.4	*-33,133	31,121	*-0.6	0.6
Montana	153,954	7,951	15.4	0.8	147,287	8,916	14.6	0.9	-6,667	11,946	-0.8	1.2
Nebraska	227,310	9,475	12.4	0.5	231,321	10,819	12.6	0.8	4,011	14,232	0.1	0.8
Nevada	426,730	18,737	15.2	0.7	418,243	18,129	14.7	0.6	-8,487	26,072	-0.6	0.9
New Hampshire	117,983	7,687	9.2	0.6	106,046	8,442	8.2	0.7	*-11,937	11,416	*-0.9	0.9
New Jersey	972,903	23,646	11.1	0.3	946,114	26,304	10.8	0.3	-26,789	35,370	-0.3	0.4
New Mexico	436,153	17,466	21.3	0.9	417,834	15,720	20.4	0.8	-18,319	23,498	-0.9	1.2
New York	3,962,938	48,945	15.9	0.3	2,970,032	47,607	15.4	0.2	*-99,906	68,270	*-0.5	0.4
North Carolina	1,668,686	32,408	17.2	0.3	1,607,935	31,818	16.4	0.3	*-60,851	45,416	*-0.8	0.4
North Dakota	82,264	6,353	11.5	0.9	80,170	5,259	11.0	0.7	-2,094	8,292	-0.6	1.1
Ohio	1,785,780	29,476	15.8	0.3	1,674,415	34,580	14.8	0.3	*-111,365	45,438	*-1.0	0.4
Oklahoma	623,840	14,892	16.6	0.4	610,828	15,093	16.1	0.4	-13,012	21,203	-0.5	0.6
Oregon	644,450	21,249	16.6	0.5	607,029	22,484	15.4	0.6	-37,421	30,936	*-1.2	0.8
Pennsylvania	1,682,212	31,577	13.6	0.3	1,629,995	31,848	13.2	0.3	*-52,217	44,849	*-0.4	0.4
Rhode Island	145,596	9,132	14.3	0.9	141,035	9,670	13.9	1.0	-4,561	12,301	-0.5	1.3
South Carolina	843,860	23,083	18.0	0.5	790,715	22,651	16.6	0.5	*-53,145	32,347	*-1.3	0.7
South Dakota	116,843	6,179	14.2	0.7	114,071	7,487	13.7	0.9	-2,772	9,892	-0.4	1.1
Tennessee	1,171,307	27,981	18.3	0.4	1,077,900	20,450	16.7	0.5	*-93,407	41,354	*-1.6	0.6
Texas	4,523,708	59,686	17.2	0.2	4,255,517	65,900	15.9	0.2	*-268,191	88,911	*-1.3	0.3
Utah	339,900	16,334	11.7	0.8	331,864	15,217	11.3	0.5	-8,046	22,324	-0.5	0.8
Vermont	73,149	4,724	12.2	0.8	61,314	5,009	10.2	0.8	*-11,835	6,885	*-1.9	1.1
Virginia	953,395	25,694	11.8	0.3	909,346	25,335	11.2	0.3	*-44,049	36,227	*-0.6	0.4
Washington	913,919	25,464	13.2	0.4	857,801	23,751	12.2	0.3	*-56,018	34,821	*-1.0	0.5
West Virginia	327,764	12,083	18.3	0.7	321,583	14,177	17.9	0.8	-6,181	18,628	-0.3	1.1
Wisconsin	738,270	19,830	13.2	0.4	677,954	19,332	11.1	0.3	*-60,306	27,694	*-1.1	0.5
Wyoming	63,774	5,334	11.2	0.9	63,455	7,239	11.1	1.3	-319	8,892	-0.1	1.6
Puerto Rico	1,624,453	25,674	46.2	0.7	1,586,285	22,92	46.1	0.7	*-38,168	34,417	*-0.1	1.0

¹ Statistically different from zero at the 90 percent confidence level.
² Poverty status is determined for individuals in housing units and noninstitutional group quarters. The poverty universe excludes children under age 15 who are not related to the householder, people living in institutional group quarters, and people living in college dormitories or military barracks.
³ Data are based on a sample and are subject to sampling variability. A margin of error is a measure of an estimate's variability. The larger the margin of error in relation to the size of the estimate, the less reliable the estimate. This number when added to or subtracted from the estimate forms the 90 percent confidence interval.
 Sources: U.S. Census Bureau, 2014 and 2015 American Community Survey and 2014 and 2015 Puerto Rico Community Survey.

Poverty in Puerto Rico has decreased over time from 58% in 1990, to 49% in the year 2000 and 45% for the period between 2009 and 2014. Recent annual numbers for 2014 and 2015 suggest that the poverty in Puerto Rico is inching up to about 46.1% in 2015. This means not only that the rate of poverty reduction in Puerto Rico has gone down but that, in fact, the historical pattern of poverty decline has been reversed and progress not only has stopped but the island appears to be going backwards and seeing unprecedented increases in the poverty rate.

Figure 13¹⁸



Source: PR Census and PRCS 2014

(5yr)

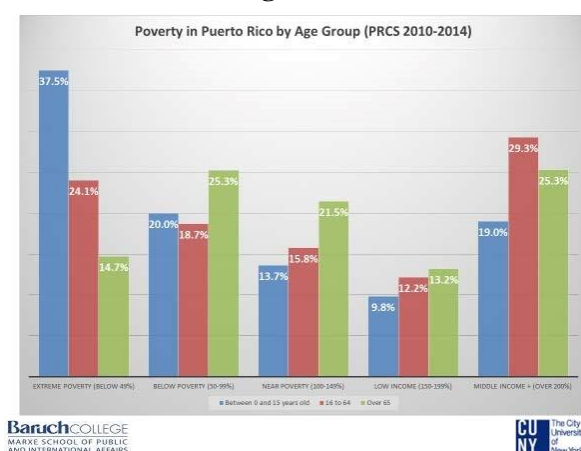
The incidence and experience of poverty in Puerto Rico varies significantly by age and children are much more likely to live in poverty compared to persons in older age groups¹⁹. Close to 57.5% of persons between zero and 15 years of age in Puerto Rico were living below poverty, compared to 42.8% of persons 16 to 64 years of age, and 40% of persons older than 65 years of age. Most critically, about 37.5% of children younger than 15 live in households in extreme poverty with incomes below half of the federal poverty level²⁰ or the equivalent of \$6,000 for one person per year.

¹⁸ Author's calculations and estimates using Puerto Rico Census (PUMS) for 1990 and 2000 and Puerto Rico Community Survey (PRCS) 5-year file for 2014.

¹⁹ For a more detailed analysis of youth poverty in Puerto Rico see Morales-González, J. 2010. "Poblacion Menor de 18 Años y los Factores Sociodemográficos Asociados a la Pobreza, Puerto Rico: 2000." *CIDE digital*, 1(2),3-27. Available at <http://soph.md.rcm.upr.edu/demo/index.php/cide-digital/publicaciones>

²⁰ For a detailed analysis of poverty in Puerto Rico see Cordero-Guzman, Hector, Raul Figueroa and Alberto Velazquez (2016) *Poverty in Puerto Rico: A Socio-Economic and Demographic Analysis*. San Juan, PR: Inter-American University Press and Human Services Research Partnerships Puerto Rico. Available at <https://www.dropbox.com/s/rj26lxcywcbwodq/Tomo%20IV-Cordero-Figueroa-Velazquez-PR-Poverty-8-16.pdf?dl=0>

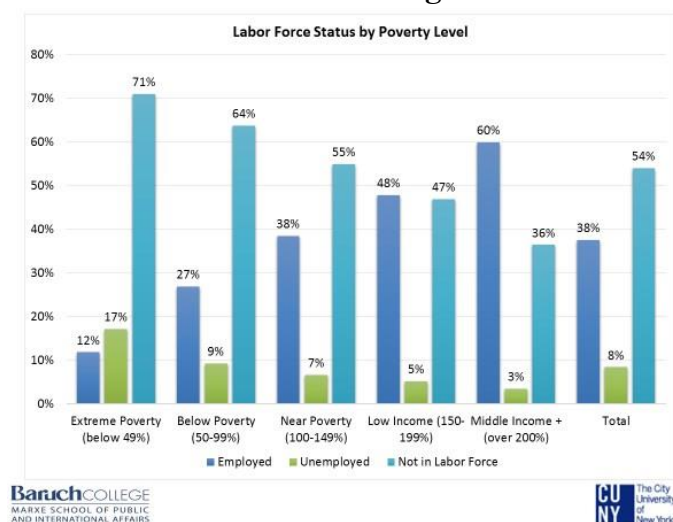
Figure 14²¹



There is a temptation and danger of proposing policies that attack the poor and the programs that support them including healthcare, nutritional assistance, temporary assistance to needy families, head start²², child care, and a range of other critical programs and services for low-income populations with significant financial need²³. These programs, however, are vital and provide critical support to the most marginalized segments of the population in Puerto Rico²⁴.

Evidence clearly suggests, and Figure 15 helps show, that the best antipoverty program is a good job with decent wages and opportunities for progress and mobility and this is precisely what Puerto Rico is lacking now.

Figure 15²⁵



Source: PRCS 2014 (5yr)

²¹ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2014

²² For a detailed discussion of the Head Start Program in Puerto Rico see *Head Start and TANE Moving Forward* edited by Carmen Nazario available at <https://www.dropbox.com/s/y2gap5mq6xiyz5g/Tomo%20III-Head%20Start%20and%20TANE.pdf?dl=0>

²³ For a detailed discussion see *Puerto Rican Children and Families: Our Starting Point* edited by Carmen Nazario available at <https://www.dropbox.com/s/rr3m64wg6g4ra6k/Tomo%20I-PR%20Children%20and%20Families.pdf?dl=0>

²⁴ For a detailed discussion see Colon, Linda. 2011. *Supervivencia, Pobreza y 'Mantengo' La Política Asistencialista Estadounidense en Puerto Rico: El PAN y el TANE*. San Juan, PR: Ediciones Callejón.

²⁵ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2014

Puerto Rico's social support infrastructure has four key needs: a) access to full funding for all programs including nutritional assistance, child care and other forms of family support; b) access to the SSI to support the high proportion of the population with disabilities²⁶; c) more research support and flexibility in program management and administration to encourage broader participation while supporting employment in the formal labor market; and d) wage subsidies and earn income tax credit programs that leave more money in the pockets of average workers who are also the consumers needed to sustain and grow the local Puerto Rico economy.

The bill presented by Congresswoman Velasquez to establish a *Task Force on Child and Family Economic Security and Stability for Economic Growth* is a critical step in the right direction because it focuses on identifying policies that truly lift American children out of poverty and many children would benefit including the children of Puerto Rico who deserve the same rights, benefits and access to opportunities as children all over the US--and throughout the world.

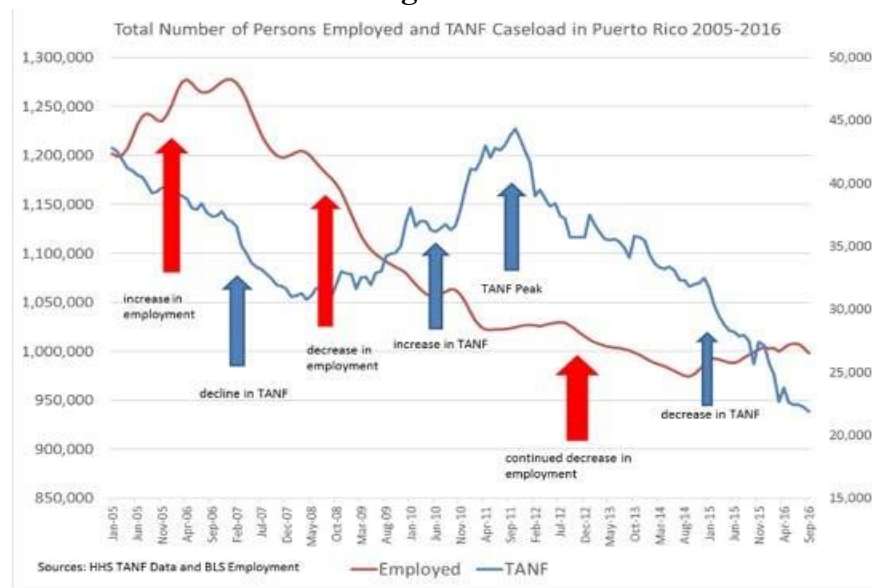
The programs that are in place to support low income and marginalized populations with healthcare, nutritional assistance, and critical survival needs are, in fact, quite modest in Puerto Rico and only support a fraction of what a family needs to be able to fully support themselves and, particularly for males, these programs provide much less support than what could be earned even in a minimum wage job. Figure 16 shows how the TANF program, for example, worked as it was designed to work by providing support to families during a critical time. As employment losses accelerated in Puerto Rico, we can see an increase in levels of program participation. But, as the “new normal” of low employment settled-in the number of participants decreased—perhaps at a troubling rate given the many challenges caused by the economic crisis²⁷.

²⁶ For a detailed discussion of the need for SSI in Puerto Rico see

<https://www.finance.senate.gov/imo/media/doc/Bipartisan%20Congressional%20Task%20Force%20on%20Economic%20Growth%20in%20Puerto%20Rico%20Releases%20Final%20Report.pdf> and Cordero-Guzman, Hector. 2017. *The Characteristics of Participants in the TANF Program in Puerto Rico in April 2016*. Report for Human Services Research Partnerships Puerto Rico. San Juan: Inter-American University available at <https://www.dropbox.com/s/r8b2aenmiwajehm/1-TANF-HSRPPR-Cordero-2-17-FIN.pdf?dl=0> of 24 Cordero-Guzman, Puerto Rico Economy in DC, July 18-2017

²⁷ For a detailed report on the TANF program in Puerto Rico see Cordero-Guzman, Hector. 2017. *The Characteristics of Participants in the TANF Program in Puerto Rico in April 2016*. Report for Human Services Research Partnerships Puerto Rico. San Juan: Inter-American University available at <https://www.dropbox.com/s/r8b2aenmiwajehm/1-TANF-HSRPPR-Cordero-2-17-FIN.pdf?dl=0>

Figure 16²⁸



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Puerto Rico needs policies that attack poverty and the root causes of poverty. What we know from our research is that the best anti-poverty policy and program is a good job in a thriving economy. Let me be very clear that there is no social scientific evidence to support the notion that the collapse of Puerto Rico's labor market and the economy, accelerated since 2006, are the result either of the actions of poor people in Puerto Rico or the programs that have been designed to provide some minimal aid and support to the most marginalized segments of the population.

Those looking for simple answers, or for someone to blame for the crisis, need to look elsewhere—and perhaps even at themselves—when trying to find the causes and culprits of Puerto Rico's economic, social, fiscal, demographic and political crisis.

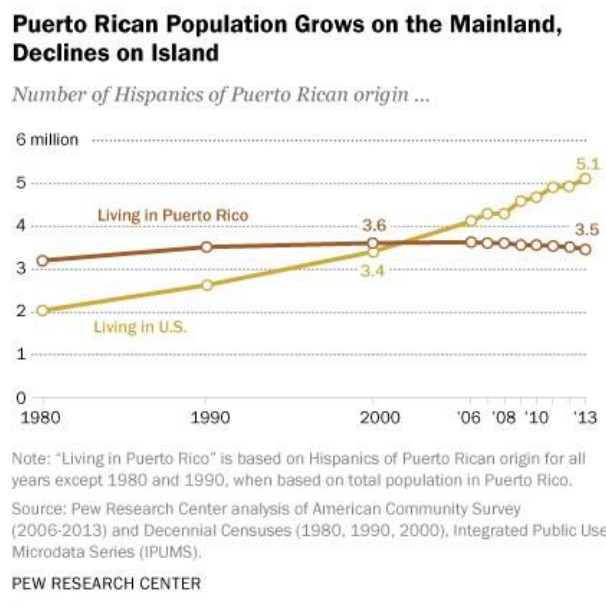
²⁸ Author's calculations and estimates using Puerto Rico Department of the Family TANF data and BLS employment data

V. Puerto Rico's Economic, Fiscal and Demographic "Death Spiral"

Puerto Rico's demographic death spiral was set in motion by the collapse of Puerto Rico's labor market and it is having, and will continue to have, consequences for the population of the island whose full magnitude do not appear to be seen or appreciated by the powers that be²⁹.

Let me be absolutely clear about what the population number say.

In the year 2000, there were about 3.6 million Puerto Ricans living in Puerto Rico and about 3.4 million living in the continental United States but by 2013 the were 5.1 million living in the mainland and 3.5 million on the island. Of the 7 million Puerto Ricans in 2000, about half lived on the island and half on the mainland. By 2013, there were 8.6 million Puerto Ricans with 59.3% living on the mainland and 40.6% on the island. That ratio is unlikely to be reversed in the foreseeable future as millions of citizens from Puerto Rico join the over 55 million Hispanics\Latinos living in the US. **Figure 17**²⁸

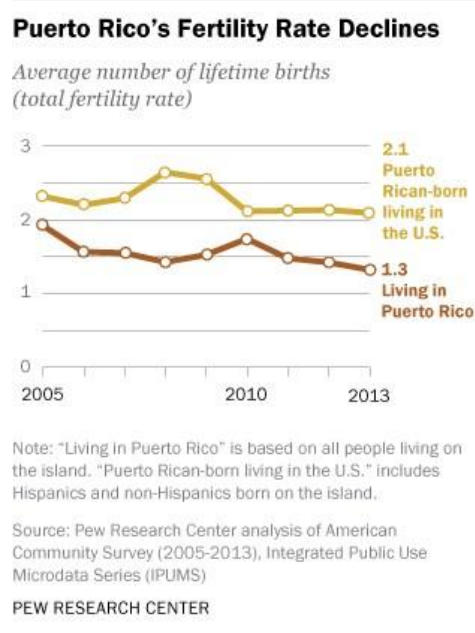


While fertility rates declined for all Puerto Ricans in the last decade, the decline has been much more accentuated for Puerto Ricans living on the island. The average number of lifetime births (total fertility rate) for residents of Puerto Rico was about 2.0 in the year 2005 and decreased to about 1.3 by the year 2013. In contrast, Puerto Rican born women living in the United States had approximately 2.3 average number of lifetime births in 2005 and by 2013 the total fertility rate had decreased to 2.1.

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²⁹ Puerto Rico's Oversight Board's "Plan Fiscal" assumes a -0.2 population decline per year in the next decade. See page 15 <https://juntasupervision.pr.gov/index.php/en/documents/> "Commonwealth Fiscal Plan [CFP]" of March 13, 2017. In recent years, population decline has been orders of magnitude higher than the -0.2% assumed in the CFP. See <https://tradingeconomics.com/puerto-rico/population-growthannual-percent-wb-data.html>

Figure 18³⁰



Labor market collapse has led to unprecedented numbers of Puerto Ricans migrating out of the island with an estimate of about 89,000 leaving in 2015, with about 25 thousand returning to the Island, for a net outmigration of 64,238 in just one year, 2015³¹.

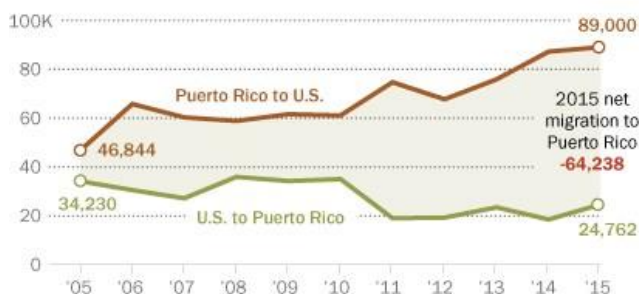
³⁰ From Pew Hispanic Center at <http://www.pewresearch.org/fact-tank/2017/03/29/key-findings-about-puerto-rico/>

³¹ For a more detailed analysis of the causes and consequences of population change in Puerto Rico see https://www.newyorkfed.org/research/current_issues/ci20-4.html

Figure 19³¹

More people are leaving Puerto Rico for U.S. mainland

Migration between Puerto Rico and the U.S.



Note: For 2015, totals don't include children younger than 1. Net migration is the number of migrants from the U.S. mainland to Puerto Rico minus the number from Puerto Rico to the U.S. mainland. Data include all people moving to and from Puerto Rico, including non-Puerto Ricans.

Source: Pew Research Center analysis of 2005-2015 American Community Survey and Puerto Rico Community Survey.

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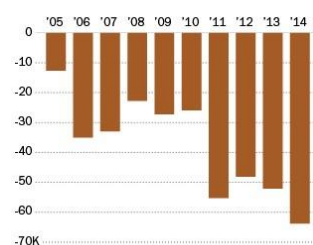
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If we examine the net migration patterns over the last decade, we see an increase in net outmigration from an average around 25 thousand per year between 2005 and 2010 to an average over 50 thousand per year between 2011 and 2014 with all signs suggesting that the net migration number continues to be in the 60 thousand to 70 thousand range or higher in recent years.

Figure 20³²

Puerto Rico's Losses Accelerate

Net migration between Puerto Rico and the U.S.



Note: For 2014, totals don't include children under 1 year old. Net migration is the number of migrants to Puerto Rico from the U.S. mainland minus the number of migrants from Puerto Rico to the U.S. mainland.

Source: Pew Research Center analysis of 2005-2014 American Community Survey and Puerto Rico Community Survey.

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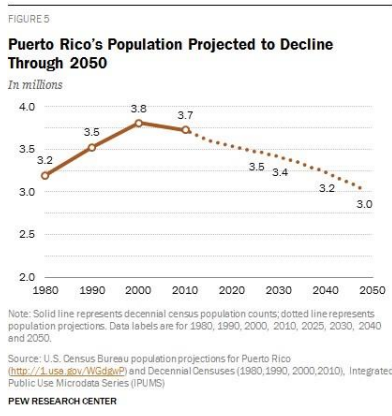
³² From Pew Hispanic Center at <http://www.pewresearch.org/fact-tank/2017/03/29/key-findings-about-puerto-rico/>

The short, medium, and long-term consequences of large outmigration from Puerto Rico are significant and involve both *population decline* and *changes in the composition of the population*.

VI. The Death Spiral: Changes in Populations Levels

As a result of the combined effects of significant outmigration, decreases in fertility, and slight increases in mortality, the population in Puerto Rico is projected to continue to decline from around 3.4 million in 2017 to about 3 million by the year 2050 according to estimates by the Pew Center³³. Keep in mind, however, that the population losses have been more accelerated than the estimates suggest and it looks like Puerto Rico's population decline is at a pace a decade faster than expected and projected in these estimates produced using 2010 US census data for Puerto Rico.

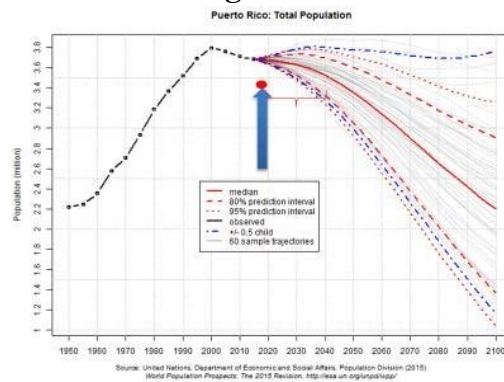
Figure 21³⁴



³³ For a more detailed analysis of population change and migration see Cohn, D'Vera, Eileen Patten and Mark Hugo Lopez. 2014. "Puerto Rican Population Declines on Island, Grows on U.S. Mainland." Washington, D.C.: Pew Research Center's Hispanic Trends Project, July.

More recent projections and estimates of the total population for Puerto Rico produced by the United Nations Population Division consider various possible scenarios but the vast majority suggest significant population decline. It also looks like Puerto Rico's actual population numbers (3.4 million persons), as shown by the red dot and the blue arrow, are 15-20 years ahead (as shown by the bracket) of even the most conservative population estimates for Puerto Rico in the United Nations models. The expected population decline will have lasting effects and it is likely to be even larger and more precipitous than Figure 22 suggests.

Figure 22³⁴

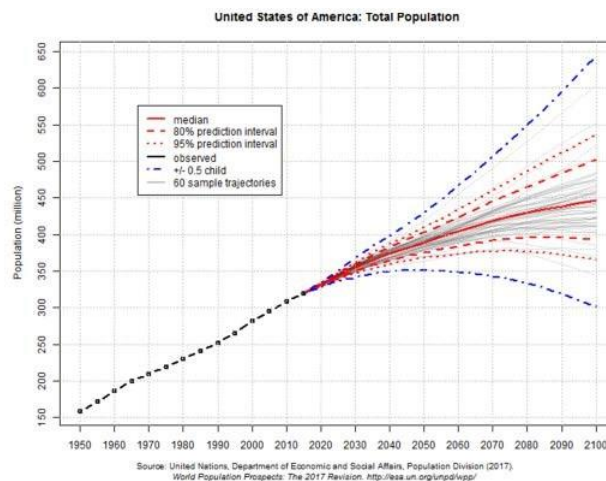


Explanation: These charts show estimates and probabilistic projections of the total population for countries or areas, geographical aggregates and World Bank income groups as defined in Definition of Regions. The population projections are based on the probabilistic projections of total fertility and life expectancy at birth, based on estimates of the 2015 Revision of the World Population Prospects. These probabilistic projections of total fertility and life expectancy at birth were carried out with a Bayesian Hierarchical Model. The figures display the probabilistic median, and the 80 and 95 per cent prediction intervals of the probabilistic population projections, as well as the (deterministic) high and low variant (+/- 0.5 child) of the 2015 Revision of the World Population Prospects.

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Puerto Rico's precipitous population decline looks even more accentuated when compared to the expected population growth patterns for the entire United States. The comparison is simply striking. **Figure 23³⁵**



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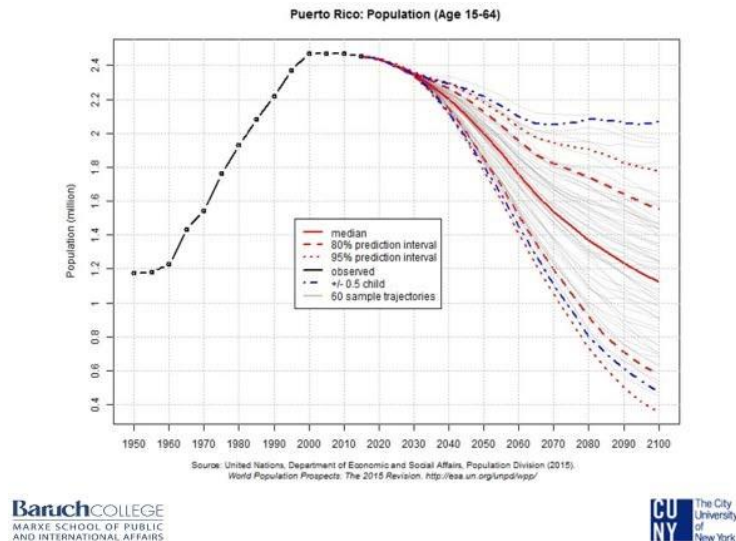
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³⁴ From United Nations Population Division <https://esa.un.org/unpd/wpp/Graphs/>

³⁵ From United Nations Population Division <https://esa.un.org/unpd/wpp/Graphs/>

Examining the population projections from the United Nations for Puerto Rico for the population ages 15-64 suggests an even more accelerated population decline for the working age population of Puerto Rico from an estimate of 2.4 million around 2017 to as low as 1.8 million by 2050.

Figure 24³⁶



VII. The Death Spiral: Changes in Population Composition

In addition to lower population levels for Puerto Rico, outmigration is also changing the age structure and composition of the population³⁷. This is reflected in the shape of Puerto Rico's population pyramid in Figure 25 showing fewer young persons and a significant aging of the population between 1950 and 2015.

Figure 25³⁸



³⁶ From United Nations Population Division <https://esa.un.org/unpd/wpp/Graphs/>

³⁷ For an in depth discussion of population change and aging in Puerto Rico see the excellent book by Raul Figueroa Rodriguez *Elders Colony* available at <https://www.amazon.com/Elders-Colony-Ra%C3%BAI-Figueroa-Rodr%C3%ADguez-ebook/dp/B00H9DOOR6>

³⁸ From United Nations Population Division <https://esa.un.org/unpd/wpp/Graphs/>

The aging of Puerto Rico's population can be seen more clearly in Figure 26 showing the age distribution for the year 2000 in color blue compared to the older age distribution for the year 2015 in color orange. Between 2000 and 2015 there were approximately 226,000 less persons in Puerto Rico's population but the impact on the age distribution was quite uneven. There were 500,000 fewer persons younger than 46 years of age, including 303,000 less than 16 years of age, while there were 274,000 more persons in Puerto Rico that were over 47 years old.

Figure 26³⁹

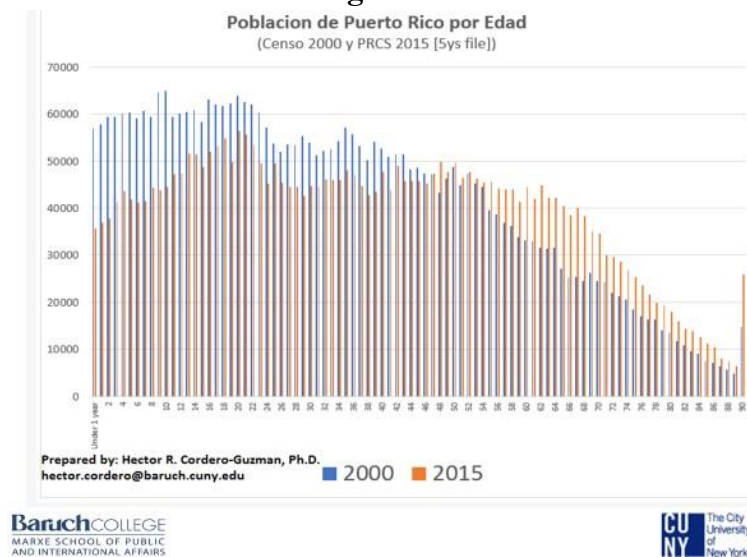
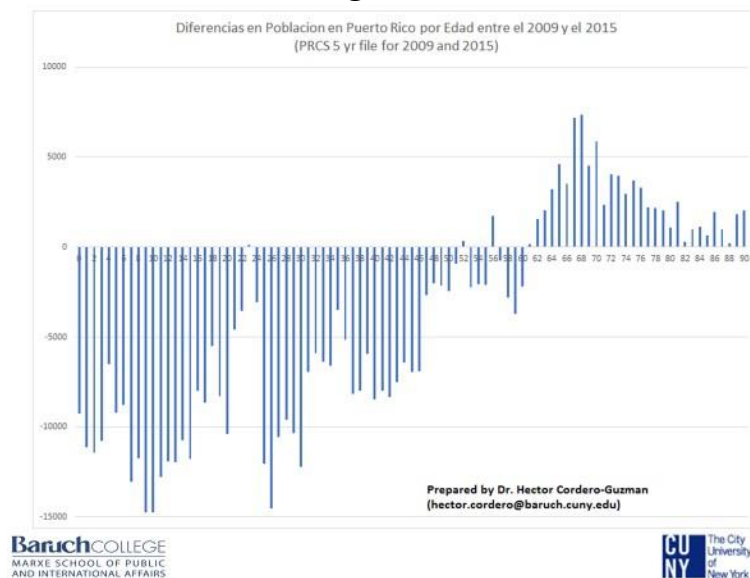


Figure 27 estimates which specific ages lost population and which ones gained population between 2009 and 2015. The data suggest large and significant population declines for the younger ages and some increases for the population older than 60 years of age.

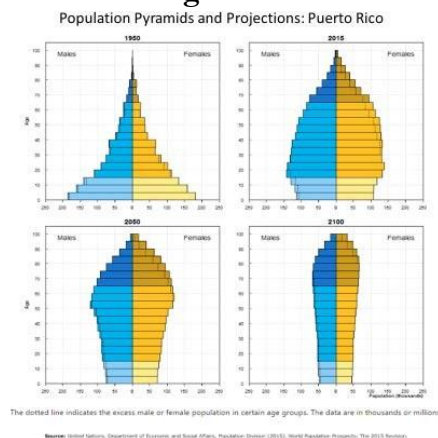
³⁹ Author's calculations and estimates using Puerto Rico Census (PUMS) for 2000 and Puerto Rico Community Survey (PRCS) 5-year file for 2015. ⁴¹ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2009 and 2015.

Figure 27⁴¹



The combined effects of high outmigration of younger populations, lower fertility rates for women in Puerto Rico, and an aging of the population will increasingly leave Puerto Rico with a population that is significantly smaller and significantly older over the next few decades. A smaller and older population has substantial consequences for estimates of the size of the labor force, employment, income, and economic activity; government collections and revenues; estimates of population needs; the provision and cost of social services; the income and costs of pension and related program; and estimates of the potential for future economic activity and growth.

Figure 28⁴⁰



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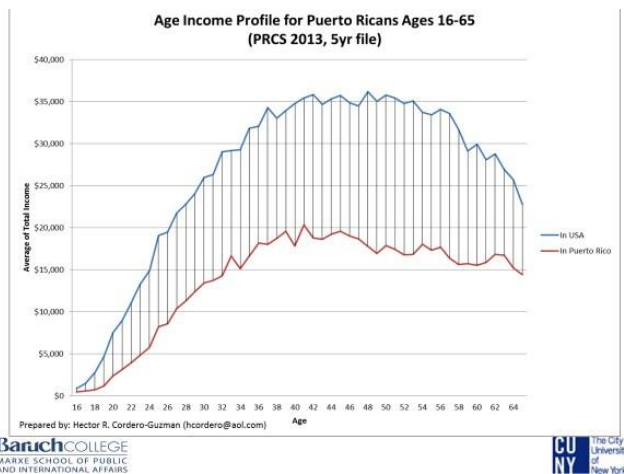
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The push forces of a collapsing Puerto Rico economy, the cuts in services, and increases in taxes and fees imposed by the PROMESA austerity regime combined with the pull of better wages, better living conditions, and more access to economic opportunity are changing and shrinking Puerto Rico's population. The average Puerto Rican living in the mainland US is expected to earn approximately \$640k more between the ages of 16 and 65 compared to the average Puerto Rican on

⁴⁰ From United Nations Population Division <https://esa.un.org/unpd/wpp/Graphs/>

the Island and lowering Island wages and working conditions will only increase the earnings gap.

Figure 29⁴¹



VIII. The US Congress and the Economic and Demographic Future of Puerto Rico

As we have seen, a close to 20% reduction in the size of the labor force has led to a 10 to 15% reduction in the size of Puerto Rico's population and a noticeable change in its age structure and composition with implications for the present and for the future.

PROMESA is a step, perhaps even a necessary step, but certainly is not sufficient to provide a solution to **Puerto Rico's Unfolding Economic, Fiscal and Demographic Death Spiral**.

In fact, PROMESA's austerity regime, the cuts imposed, and the increases in all kinds of fees and taxes, are likely to widen the quality of life gap with the continental United States and increase out migration over the short and medium term.

Puerto Rico needs investment, capital, community economic development, and policies that grow the pie and reduce the high levels of poverty and inequality.

Puerto Rico's problems have to do with unstable employment, low wages, flat incomes and diminished opportunity.

Many people inside and outside of Puerto Rico are working hard to face the crisis and find solutions.

But, the people of Puerto Rico are voting with their feet and leaving the Island in large numbers even though they stay connected, consume products and services, and help support many aspects of the Island economy.

While citizens are responsible to do for themselves, and Puerto Ricans do every day, in a territory like Puerto Rico, the metropolitan ruling power has added responsibility.

Puerto Rico does not set its own parameters of operation and rules. It must work with Congress and operates under rules and spaces set by the US Congress.

⁴¹ Author's calculations and estimates using American Community Survey (ACS) for USA and Puerto Rico Community Survey (PRCS) 5-year file for 2013.

As things stand now, just today another 230 persons are projected to have left the island of Puerto Rico--according to estimates by the Puerto Rico Institute of Statistics.

As the persons with the ultimate say over the future of Puerto Rico and its people, I urge you to do everything in your power to tackle the issue of poverty & labor market collapse in Puerto Rico head on and to deliver the promise of opportunity to the millions of US citizens in Puerto Rico and the millions more with ties to the Island.

I and many others are happy to help. The future is here. There is no time to waste.

Thank you very much for the opportunity.

Figure 8⁴²

⁴² From Bureau of Labor Statistics <https://www.bls.gov/oes/>

State/Territory	Median Hourly Wages	PR Gap	Average Hourly Wages	PR Gap	Bottom 10 rate	PR Gap	Top 90 rate	PR Gap
District of Columbia	\$ 31.20	30%	\$ 27.78	30%	\$ 11.40	66%	\$ 12.11	32%
Alaska	\$ 21.73	43%	\$ 20.06	31%	\$ 10.35	70%	\$ 45.67	50%
Massachusetts	\$ 21.46	44%	\$ 21.70	40%	\$ 9.80	81%	\$ 52.88	42%
Connecticut	\$ 20.87	46%	\$ 26.47	50%	\$ 9.40	83%	\$ 49.08	47%
Washington	\$ 19.79	46%	\$ 26.26	52%	\$ 10.16	77%	\$ 47.44	49%
New York	\$ 19.85	46%	\$ 26.75	49%	\$ 9.06	86%	\$ 51.68	44%
Maryland	\$ 19.63	46%	\$ 25.70	51%	\$ 9.38	86%	\$ 53.43	40%
New Jersey	\$ 19.58	46%	\$ 25.92	51%	\$ 9.30	87%	\$ 49.39	48%
California	\$ 18.84	50%	\$ 25.91	51%	\$ 9.15	86%	\$ 51.68	44%
Rhode Island	\$ 18.43	51%	\$ 23.88	59%	\$ 9.33	87%	\$ 44.45	51%
Minnesota	\$ 18.30	51%	\$ 23.23	57%	\$ 9.80	87%	\$ 43.28	53%
Colorado	\$ 18.28	52%	\$ 23.97	59%	\$ 9.37	86%	\$ 49.31	50%
Wyoming	\$ 18.16	52%	\$ 21.85	61%	\$ 9.35	86%	\$ 36.70	62%
Virginia	\$ 18.06	52%	\$ 24.46	54%	\$ 8.73	90%	\$ 48.88	47%
Delaware	\$ 18.03	52%	\$ 23.81	58%	\$ 9.80	87%	\$ 44.82	51%
Hawaii	\$ 18.01	52%	\$ 22.23	60%	\$ 9.33	87%	\$ 43.44	59%
North Dakota	\$ 17.79	53%	\$ 21.20	62%	\$ 9.34	84%	\$ 38.86	63%
Illinois	\$ 17.59	54%	\$ 23.46	59%	\$ 9.38	86%	\$ 44.83	51%
New Hampshire	\$ 17.51	54%	\$ 22.85	58%	\$ 9.80	87%	\$ 41.30	55%
Oregon	\$ 17.50	54%	\$ 22.65	59%	\$ 9.47	87%	\$ 41.84	55%
Wisconsin	\$ 17.39	54%	\$ 21.41	62%	\$ 9.75	86%	\$ 39.74	62%
Pennsylvania	\$ 17.13	56%	\$ 22.00	60%	\$ 8.78	89%	\$ 43.39	56%
Michigan	\$ 16.70	56%	\$ 21.70	61%	\$ 8.80	90%	\$ 43.24	56%
Wisconsin	\$ 16.52	57%	\$ 20.62	64%	\$ 8.86	90%	\$ 38.93	62%
Ohio	\$ 16.47	57%	\$ 21.11	63%	\$ 8.77	89%	\$ 37.84	60%
Arizona	\$ 16.46	57%	\$ 21.43	62%	\$ 8.83	89%	\$ 43.17	57%
Maine	\$ 16.29	58%	\$ 20.28	66%	\$ 8.92	88%	\$ 38.25	64%
Utah	\$ 16.20	58%	\$ 20.94	63%	\$ 8.71	90%	\$ 38.42	59%
Texas	\$ 16.18	58%	\$ 21.79	61%	\$ 8.48	93%	\$ 41.42	56%
Nebraska	\$ 16.13	58%	\$ 20.34	66%	\$ 8.82	91%	\$ 38.79	62%
Iowa	\$ 16.01	59%	\$ 19.77	67%	\$ 8.82	91%	\$ 34.75	66%
Kansas	\$ 16.03	60%	\$ 20.20	66%	\$ 8.88	91%	\$ 38.14	63%
Georgia	\$ 15.79	60%	\$ 21.46	62%	\$ 8.46	93%	\$ 49.67	50%
Missouri	\$ 15.76	60%	\$ 20.57	64%	\$ 8.50	92%	\$ 37.69	63%
Nebraska	\$ 15.66	60%	\$ 19.75	67%	\$ 8.91	91%	\$ 35.20	66%
Indiana	\$ 15.63	60%	\$ 19.94	66%	\$ 8.46	92%	\$ 35.73	64%
North Carolina	\$ 15.63	60%	\$ 20.51	64%	\$ 8.46	92%	\$ 38.23	63%
Kentucky	\$ 15.30	62%	\$ 19.25	69%	\$ 8.44	93%	\$ 34.13	67%
New Mexico	\$ 15.29	62%	\$ 20.31	66%	\$ 8.85	91%	\$ 37.68	63%
Louisiana	\$ 15.20	62%	\$ 19.32	68%	\$ 8.32	94%	\$ 34.59	68%
Oklahoma	\$ 15.17	62%	\$ 19.84	67%	\$ 8.42	93%	\$ 35.25	64%
Montana	\$ 15.15	62%	\$ 19.17	69%	\$ 8.77	89%	\$ 34.60	67%
Tennessee	\$ 15.02	62%	\$ 19.85	66%	\$ 8.43	93%	\$ 35.12	66%
Florida	\$ 14.93	63%	\$ 20.11	66%	\$ 8.69	90%	\$ 38.88	62%
Idaho	\$ 14.93	63%	\$ 19.12	69%	\$ 8.43	93%	\$ 34.50	68%
Alabama	\$ 14.83	64%	\$ 19.88	67%	\$ 8.36	94%	\$ 38.04	63%
South Carolina	\$ 14.74	64%	\$ 19.03	70%	\$ 8.32	94%	\$ 34.48	69%
South Dakota	\$ 14.36	66%	\$ 17.98	74%	\$ 8.88	90%	\$ 33.26	73%
West Virginia	\$ 14.14	67%	\$ 18.21	73%	\$ 8.24	96%	\$ 32.87	70%
Arkansas	\$ 14.01	67%	\$ 18.24	73%	\$ 8.23	96%	\$ 32.65	70%
Mississippi	\$ 13.76	68%	\$ 17.87	76%	\$ 8.22	96%	\$ 33.91	74%
Virgin Islands	\$ 13.36	71%	\$ 18.81	79%	\$ 8.27	95%	\$ 29.28	73%
Oman	\$ 12.37	78%	\$ 18.06	83%	\$ 8.01	96%	\$ 28.72	79%
Puerto Rico	\$ 9.42	100%	\$ 12.23	100%	\$ 7.82	100%	\$ 22.73	100%
Total	\$ 18.81	66%	\$ 21.82	61%	\$ 8.83	89%	\$ 38.80	67%

7/12/2017



Figure 12⁴³

Table 1.

Number and Percentage of People in Poverty in the Past 12 Months by State and Puerto Rico: 2014 and 2015

(For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/programs-surveys/acs/technical-documentation/code-lists.html)

Area	Below poverty in 2014				Below poverty in 2015				Change in poverty (2015 less 2014)			
	Number ¹	Margin of error ² (±)	Percent-age ¹	Margin of error ² (±)	Number ¹	Margin of error ² (±)	Percent-age ¹	Margin of error ² (±)	Number ¹	Margin of error ² (±)	Percent-age ¹	Margin of error ² (±)
United States	48,208,387	241,557	15.5	0.1	46,153,077	275,061	14.7	0.1	-2,055,310	366,071	*-0.8	0.1
Alabama	910,175	25,515	19.3	0.5	876,016	23,918	18.5	0.5	-34,159	34,972	*-0.8	0.7
Alaska	80,627	6,821	11.2	0.9	74,532	5,835	10.3	0.8	-6,095	8,977	-0.9	1.2
Arizona	1,199,061	26,607	18.2	0.4	1,159,043	29,822	17.4	0.4	*-40,018	39,966	*-0.9	0.6
Arkansas	543,882	15,436	18.9	0.5	550,508	17,473	19.1	0.6	6,626	23,315	0.2	0.8
California	6,259,098	64,461	16.4	0.2	5,891,678	66,827	15.3	0.2	*-367,420	92,850	*-1.1	0.3
Colorado	630,786	21,138	12.0	0.4	613,549	20,501	11.5	0.4	-17,237	29,447	-0.6	0.6
Connecticut	374,772	16,369	10.8	0.5	366,909	15,789	10.5	0.5	-7,863	22,743	-0.2	0.7
Delaware	113,508	7,940	12.5	0.9	114,360	9,567	12.4	1.0	852	12,433	-0.1	1.3
District of Columbia	110,666	7,793	17.7	1.2	110,500	8,628	17.3	1.4	-166	11,626	-0.4	1.8
Florida	3,211,615	59,681	16.5	0.3	3,116,886	47,330	15.7	0.2	*-94,729	76,171	*-0.8	0.4
Georgia	1,797,969	39,080	18.3	0.4	1,694,988	33,156	17.0	0.3	*-102,981	51,250	*-1.3	0.5
Hawaii	156,729	10,340	11.4	0.8	147,984	8,530	10.6	0.6	-8,745	13,404	-0.7	1.0
Idaho	237,981	11,550	14.8	0.7	245,551	13,820	15.1	0.9	7,570	18,011	0.3	1.1
Illinois	1,804,535	31,908	14.4	0.3	1,703,258	35,831	13.6	0.3	*-101,277	47,979	*-0.8	0.4
Indiana	974,218	25,464	15.2	0.4	933,181	24,656	14.5	0.4	*-41,037	35,445	*-0.7	0.6
Iowa	367,816	14,237	12.2	0.5	367,414	13,279	12.2	0.4	-402	19,468	-0.1	0.6
Kansas	382,712	13,369	13.6	0.5	368,879	13,898	13.0	0.5	-13,833	19,284	-0.5	0.7
Kentucky	817,542	22,333	19.1	0.5	794,055	21,101	18.5	0.5	-23,487	30,725	-0.6	0.7
Louisiana	896,524	23,296	19.8	0.5	889,946	24,422	19.6	0.5	-6,578	33,751	-0.2	0.7
Maine	182,791	8,933	14.1	0.7	172,620	9,255	13.4	0.7	-10,171	12,863	-0.8	1.0
Maryland	589,818	21,635	10.1	0.4	570,776	21,279	9.7	0.4	-19,042	30,346	-0.4	0.6
Massachusetts	757,235	20,233	11.6	0.3	752,071	21,473	11.5	0.3	-5,164	29,503	-0.2	0.4
Michigan	1,568,844	28,256	16.2	0.3	1,529,645	27,659	15.8	0.3	-39,199	39,540	*-0.4	0.4
Minnesota	611,354	19,609	11.5	0.4	546,431	16,392	10.5	0.3	*-64,923	25,558	*-1.3	0.5
Mississippi	623,113	18,212	21.5	0.6	637,128	21,554	22.0	0.7	14,015	28,218	0.5	0.9
Missouri	908,628	22,347	15.5	0.4	875,495	21,660	14.8	0.4	*-33,133	31,121	*-0.6	0.6
Montana	153,954	7,951	15.4	0.8	147,287	8,916	14.6	0.9	-6,667	11,946	-0.8	1.2
Nebraska	227,310	9,475	12.4	0.5	231,321	10,619	12.6	0.6	4,011	14,232	0.1	0.8
Nevada	426,730	18,737	15.2	0.7	418,243	18,129	14.7	0.6	-8,487	26,072	-0.6	0.9
New Hampshire	117,983	7,687	9.2	0.6	106,046	8,442	8.2	0.7	*-11,937	11,418	*-0.9	0.9
New Jersey	972,903	23,646	11.1	0.3	946,114	26,304	10.8	0.3	-26,789	35,370	-0.3	0.4
New Mexico	436,153	17,466	21.3	0.9	417,834	15,720	20.4	0.8	-18,319	23,498	-0.9	1.2
New York	3,062,938	48,945	15.9	0.3	2,970,032	47,607	15.4	0.2	*-92,906	68,279	*-0.5	0.4
North Carolina	1,668,686	32,408	17.2	0.3	1,607,835	31,818	16.4	0.3	*-60,851	45,416	*-0.8	0.4
North Dakota	82,264	6,353	11.5	0.9	80,170	5,329	11.0	0.7	-2,094	8,292	-0.6	1.1
Ohio	1,785,780	29,476	15.8	0.3	1,674,415	34,580	14.8	0.3	*-111,365	45,438	*-1.0	0.4
Oklahoma	623,840	14,892	16.6	0.4	610,828	15,093	16.1	0.4	-13,012	21,203	-0.5	0.6
Oregon	644,450	21,249	16.6	0.5	607,029	22,484	15.4	0.6	*-37,421	30,936	*-1.2	0.8
Pennsylvania	1,682,212	31,577	13.6	0.3	1,629,995	31,848	13.2	0.3	*-52,217	44,849	*-0.4	0.4
Rhode Island	145,596	9,132	14.3	0.9	141,035	9,670	13.9	1.0	-4,561	13,301	-0.5	1.3
South Carolina	843,860	23,093	18.0	0.5	790,715	22,651	16.6	0.5	*-53,145	32,347	*-1.3	0.7
South Dakota	116,843	6,179	14.2	0.7	114,071	7,467	13.7	0.9	-2,772	9,692	-0.4	1.1
Tennessee	1,171,307	27,981	18.3	0.4	1,077,900	30,450	16.7	0.5	*-93,407	41,354	*-1.6	0.6
Texas	4,523,708	59,686	17.2	0.2	4,255,517	65,900	15.9	0.2	*-268,191	88,911	*-1.3	0.3
Utah	339,900	16,334	11.7	0.6	331,854	15,217	11.3	0.5	-8,046	22,324	-0.5	0.8
Vermont	73,149	4,724	12.2	0.8	61,314	5,009	10.2	0.8	*-11,835	6,885	*-1.9	1.1
Virginia	953,395	25,894	11.8	0.3	909,346	25,335	11.2	0.3	*-44,049	36,227	*-0.6	0.4
Washington	913,619	25,464	13.2	0.4	857,801	23,751	12.2	0.3	*-55,818	34,821	*-1.0	0.5
West Virginia	327,764	12,083	18.3	0.7	321,583	14,177	17.9	0.8	-6,181	18,628	-0.3	1.1
Wisconsin	738,270	19,830	13.2	0.4	677,964	19,332	12.1	0.3	*-60,306	27,694	*-1.1	0.5
Wyoming	63,774	5,334	11.2	0.9	63,425	7,239	11.1	1.3	-349	8,992	-0.1	1.6
Puerto Rico	1,624,453	25,674	46.2	0.7	1,586,285	22,921	46.1	0.7	*-38,168	34,417	-0.1	1.0

* Statistically different from zero at the 90 percent confidence level.

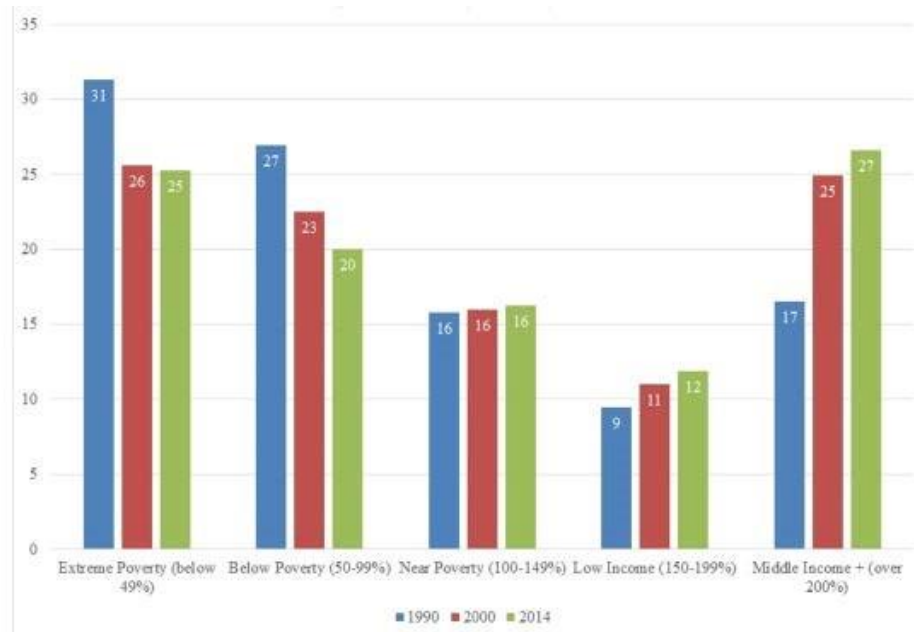
¹ Poverty status is determined for individuals in housing units and noninstitutional group quarters. The poverty universe excludes children under age 15 who are not related to the householder, people living in institutional group quarters, and people living in college dormitories or military barracks.

² Data are based on a sample and are subject to sampling variability. A margin of error is a measure of an estimate's variability. The larger the margin of error in relation to the size of the estimate, the less reliable the estimate. This number when added to or subtracted from the estimate forms the 90 percent confidence interval. Sources: U.S. Census Bureau, 2014 and 2015 American Community Survey and 2014 and 2015 Puerto Rico Community Survey.

⁴³ From US Census Bureau <https://www.census.gov/content/dam/Census/library/publications/2016/demo/acsbr15-01.pdf>

Figure

13⁴⁴



Source:
Census

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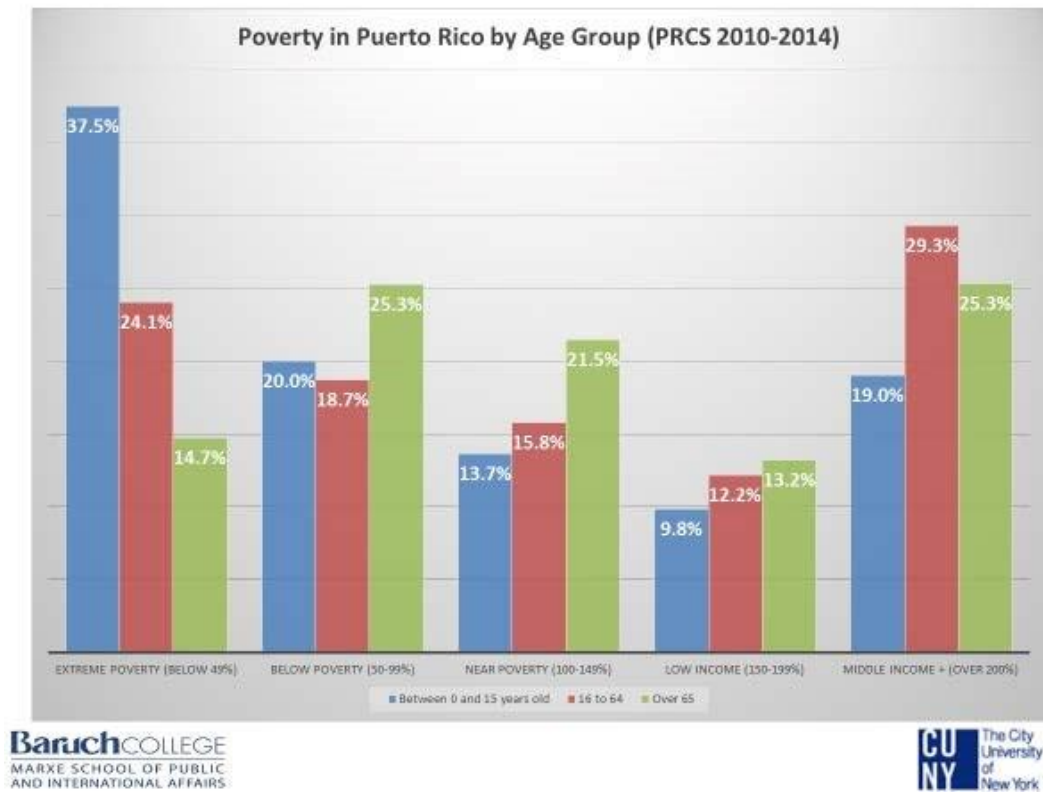
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PRCS 2014 (5yr)

⁴⁴ Author's calculations and estimates using Puerto Rico Census (PUMS) for 1990 and 2000 and Puerto Rico Community Survey (PRCS) 5-year file for 2014.

Figure 14⁴⁵



⁴⁵ Author's calculations and estimates using Puerto Rico Community Survey (PRCS) 5-year file for 2014

Joaquín Villamil, Estudios Técnicos
Round Table Discussion on Puerto Rico
Hosted by Congresswoman Nydia Velázquez
House of Representatives
18 July, 2017

First of all let me express my thanks to Congresswoman Nydia Velázquez for the invitation to participate in this Round Table.

My colleagues have been very eloquent in expressing what our situation is and what needs to be done to return the Island's economy to a healthier economic condition. There isn't much to add to what has already been said, so I will focus my comments on why the crisis?

Anne Mulcahy, when she took over Xerox, gave a speech in which she told the story of a farmer whose cow had fallen into a ditch. What he said was: First get the cow out of the ditch, then find out why she fell in it and then take steps to assure that it doesn't happen again.

In our case the ditch is what brings us here, Puerto Rico's economic and fiscal hole. Getting out of that hole is urgent to prevent further deterioration, but will not be easy. It could be made easier if we get right why it was that we fell in it.

The seeds of Puerto Rico's demise were planted decades ago when we embarked on a development path that had three main components: cheap labor, tax incentives and federal support. Incentives were justified in many ways, one being that all our competitors used them. True enough. Labor ceased being cheap in the sixties, however. In the seventies the celebrations of the fifties and sixties soon gave way to something very different.

Beginning in the early seventies the economy basically lost the capacity to generate sustainable growth. Many reasons were put forth for that, including the implementation of the federal minimum wage, new competition from low wage jurisdictions and wider access to U.S. markets by the rest of the world. Whatever the reasons it became clear that the particular model that had been so successful in the previous two decades could not produce the high growth rates attained then.

What happened or better, didn't happen, was a serious rethinking of development approaches. Puerto Rico persisted in trying to patch a broken economy with the same instruments that decades before had been successful: tax exemptions both at the federal and local levels. Section 936 was adopted in 1976 and terminated in 1996 with a ten year phase out. Subsequently, various other 936 type measures were proposed: 954, 933A, 245. While these efforts – commendable to some extent -

were being pursued, the economy declined at an accelerated rate, more so after 2000.

Since the mid-seventies, public spending and debt, federal transfers, a growing underground economy and the impact of Section 936 gave the impression that the economy was performing adequately. Since 2001, debt became the cloak that covered the damaged economy. In the twelve years between 2001 and 2013, some \$42 billion in debt was issued, half of which went to cover operational deficits. By the middle of last decade things came to a head. Even so, the two administrations between 2005 and 2013 issued between them some \$31 billion in debt.

In short, we made the ditch deeper by not facing up to the consequences of a no longer viable economic development model and by irresponsible fiscal measures whose aim was covering up the obvious insufficiencies in our economic performance.

Congress can take action in a number of areas that could help the economy grow, including acting on a number of recommendations made by its Bi-Partisan Task Force and others such as eliminating air cabotage restrictions, providing Medicaid parity, providing better access to federal procurement, and making certain that federal tax reform does not harm the Island's economy. However, it is up to Puerto Rico to come up with a clear vision of what our economy should be in the mid and long term and the strategies and actions that can achieve that vision. That role cannot be delegated to Congress.