The United States Senate
COMMITTEE on FINANCE
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Wyden Statement at Finance Committee Hearing on Puerto Rico's Economic Crisis
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There are more than three million United States citizens living in the Commonwealth of Puerto Rico, where longstanding economic challenges have developed into a very real and very immediate crisis.

No single policy or harsh austerity platform is going to save the day. The solutions in Puerto Rico must be focused, first and foremost, on helping its millions of American citizens get ahead and putting its economy on solid ground by any available means.

In order to accomplish that task, policymakers in Washington and in San Juan need to take a hard look at the origins of the crisis. Puerto Rico won't be able to move forward until there's an understanding of what's holding it back.

The core of Puerto Rico's problems is simply that the commonwealth, its public corporations and other entities issued more debt than they're able to pay back. Without a process for restructuring that debt, the problem won't go away on its own. But just solving the immediate crisis is not a long-term solution. Puerto Rico also needs to find ways to modernize and grow its economy, or it will find itself right back here again.

For example, the Commonwealth's electric utility, which is responsible for the largest share of Puerto Rico's debt, still burns diesel fuel to generate power. By converting its archaic generators to use lower cost, cleaner-burning natural gas, the utility could make more money on the power it sells. But that type of conversion requires upfront investment, and Puerto Rico can't attract that investment without addressing its immediate financial crisis.

A lot of people engaged in this debate blame Puerto Rico's economic struggles on the ending of an old tax policy that gave corporations tax-free income in the commonwealth. But in my view, the history is a lot more complicated than that, especially when it comes to taxes.

Companies based in Puerto Rico are foreign in the eyes of the IRS -- the same as if their headquarters were in Mexico, China, or the UK. But there's a major benefit that no other foreign companies get, which is access to American incentives for investments in R&D and manufacturing. There are a lot of people who view Puerto Rico as a tax haven tucked within the U.S., and this is a big reason why.

There are also other special breaks that are unavailable in the mainland. For example, there is a longstanding policy known in the tax world as the rum carry-over, which for decades provided a big economic boost to Puerto Rico. But in recent years, instead of being invested in roads or schools or health care, the proceeds from the rum carry-over have mostly gone straight to large distillers.

And the Commonwealth's own tax policy has been less than helpful as well. By some estimates, Puerto Rico collects less than half of its sales tax. It recently put in place a program to attract certain Americans and their firms by zeroing out local taxes on capital gains, with no requirement that they contribute to the economy. Under a local tax break known as Act 20, service providers who move to the commonwealth have their corporate tax rate drop from 30 percent to four percent.

These strategies may appeal to some companies and attract some wealth, but there's not much evidence to suggest they're steering Puerto Rico's economy toward prosperity. Scaling back or eliminating overly generous or ineffective tax breaks should be on the table as part of any long-term financial recovery plan.

In this debate, some people have made the argument that Puerto Rico's safety net programs are too generous and need to be rolled back. For example, there's a belief among some that Puerto Rico needs a lower minimum wage. But changing the law to cut people's pay makes hardly any sense when American citizens in Puerto Rico already make less than half as much on average as those in the mainland U.S. In addition, lower wages and a tattered safety net will drive more young workers to the mainland, costing the island a vital engine of growth.

The Medicaid program in Puerto Rico is less generous than in the mainland U.S. And its capped funding system means that it continues to face harsh spending limits that undermine its ability to meet the health care needs of the lowest-income U.S. citizens.

In addition, Puerto Rico is locked out of one of the most successful pieces of the Medicare prescription drug benefit, which is the Part D Low-Income Subsidy. The people this hurts already live with extremely limited means.

A better funding system for Medicaid and improvements to Medicare should be on the table. Puerto Rico could adopt an Earned Income Tax Credit to help raise incomes and encourage employment. The Child Tax Credit could be a bigger help to more families. And the commonwealth could change its own tax policies to make sure it's able to invest in education and infrastructure in the years ahead.

It's important to move ahead with policies that amount to more than a momentary sugar high. The bottom line is that the solutions have to help Puerto Rico and its millions of American citizens build a stronger economic future, or else the debt cycle will continue.

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