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Submission to the Congressional Task Force on Economic Growth in Puerto Rico

Although Puerto Rico's economy has recently received much attention from our national government, it has always been underdeveloped, with high rates of joblessness and poverty. After a growth spurt, it faltered four decades ago and has declined for most of a decade. With few exceptions, such as an increase in manufacturing from \$36.7 billion in 2006 to \$48.3 billion last year, most economic indicators have fallen 14-21% during this decade. There are a number of reasons for its failure – but territory status is the underlying one. We are a State in most laws but a second-class territory in others, and not part of the U.S. under yet other laws. This combination is contradictory, incoherent, and unreliable. It also does not work.

Treatment different than the States ostensibly to help Puerto Rico has failed to close the economic gap between Puerto Rico and the nation as a whole. In 1952, Puerto Rico's per capita income was roughly a third of the nation's and half that of the poorest State. Sixty-four years later it is roughly the same. Special measures do not trigger the sustained economic growth that Puerto Rico needs to close the gap or retain our population. The 50 States prove this, and Puerto Rican relocation to the States demonstrates that our people know it.

Thus, the most meaningful recommendations that you can make would be to phase in equality with the States and facilitate the territory attaining its ultimate status – statehood.

Short of this, we urge the following measures:

- **Incentives for investment in underdeveloped and distressed communities.** Puerto Rico needs investment. There are numerous tax policies - such as Empowerment and Enterprise Zones, Renewal Communities, the New Markets Tax Credit – for investment in the States that can encourage investment in Puerto Rico but from which the territory has been excluded.

In addition, income from Puerto Rico should permanently qualify for the Domestic Production Tax Deduction as does income from the States.

- **Expand the refundable portions of the Earned Income Tax Credit and Child Tax Credit to Puerto Rico.** The most important anti-poverty programs for families with children are the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), which, taken together, reduced child poverty in the U.S. by seven percent in 2014. In Puerto Rico, the CTC is limited to working families with three or more children and the EITC do not apply at all. Low-income working Puerto Ricans should be treated equally in Puerto Rico. National issues regarding the program, such as error rates, are not a reason to deny this important tool to low-income working families and the insular economy.



Just as the CTC is, the EITC should be administered by the Federal government in Puerto Rico, as it is in the States. Local administration would make implementation less reliable and risk future Federal reforms not being applied to the territory. PREF strongly endorses Federal administration of refundable tax credit programs in Puerto Rico, as provided in current bills in the Congress (S. 2203/Menendez, HR 3553/Pierluisi, H R 4213/Pascrell).

- **Phase-in equal treatment with the States and DC in Medicaid.** It is urgent to lift the cap on Federal contributions in Puerto Rico and apply the same cost-sharing formula to the territory that applies to States. This would not only assist the insular government budget but stimulate the economy. It would prevent a health care crisis that will occur by 2018 as the very limited 2010 healthcare reform funds for Puerto Rico are used up.
- **Treat Puerto Rico equally with the States and DC in all key Federal programs.** A number of carve-outs in Federal law handicap Puerto Rico and should be phased out. For example: (1) The territorial government receives an insufficient grant under Medicare Part D to subsidize prescription drugs instead of Puerto Ricans receiving this assistance, (2) Puerto Ricans are not automatically enrolled in Medicare Part B upon turning 65, often resulting in the compilation of steep fines for late enrollment, (3) The 2010 healthcare reform included a capped amount for health insurance premium subsidies in Puerto Rico that was so little that the law allowed the territory to use the money for its underfunded Medicaid program instead. The result is that uninsured and under-insured Puerto Ricans cannot receive premium subsidies, (4) Supplemental Security Income (SSI) program has not yet replaced the old Aid to the Aged, Blind, and Disabled program that was phased out for the rest of the country in 1972, and (5) Puerto Rico's Nutrition Assistance Program is similarly a poor substitute for the national Supplemental Nutrition Assistance Program (SNAP). These program inequalities deny Puerto Rico's economy money that would be spent locally for goods and services.
- **Increase infrastructure investment and spending in Puerto Rico.** The Congress and the Administration should make certain that Puerto Rico receives a meaningful amount of federal infrastructure investment funds. Without voting Members of the House and Senate, and with only one Resident Commissioner in the House notwithstanding the number of U.S. citizens in Puerto Rico, Puerto Rico has long been underrepresented in various federal programs designed to insure proper infrastructure—roads, bridges, mass transportation and waterways that are critical to people's lives and economic success. Given this historic shortfall and the critical need for immediate job creating stimuli, the Congress should create a short term special infrastructure investment fund.
- **Include Puerto Rico in all surveys and reports by the Census Bureau and other Federal agencies.** The Congress found in considering PROMESA that some basic financial data regarding the territory does not exist. Federal data is vital in establishing goals, gauging progress, and creating sound new policies based on fact. Inclusion of Puerto Rico in all Federal statistical analyses is a basic, foundational step in moving forward. Future appropriation bills should require all agencies to include Puerto Rico in all data-gathering and reporting activities that are nationwide-in-scope effective FY 2017.



- **Exclude Puerto Rico from the EEI requirement.** The Census Bureau should eliminate its requirement that domestic shipments to and from Puerto Rico, which is within the customs territory of the U.S., include Electronic Export Information (EEI), which is usually required for non-domestic imports and exports that are processed through the Customs and Border Protection Service. The current requirement delays shipments and increases their cost, in addition to creating the impression that Puerto Rico is foreign. The elimination of this requirement would not cost the Federal treasury but would actually generate some savings.ⁱ
- **A partial FICA tax holiday** (a 50% reduction in employer rate and a 50% reduction in employee rate) on Puerto Rico-sourced earnings would be an effective means of injecting additional resources in the pockets of workers and employers for a period of 12 to 30 months. Depending on the cost, it could be limited to the first \$23,760 of earned income, which is 200% the Federal poverty rate for an individual or about 100% the rate of a family of four.ⁱⁱ

The Task Force should not adopt any measures that could not survive a change of status to statehood because, by definition, such measures would be temporary and not help build a sustainable economy.

In 2011, the President's Task Force on Puerto Rico correctly reported that "identifying the most effective means of assisting the Puerto Rican economy depends on resolving the ultimate question of status. The question is whether the territory will become a State -- as our people overwhelmingly want -- or a nation. Federal law would be very different depending upon which. **Equality in tax law and social policy would provide the best economic hope for the territory and nearly 3.4 million U.S. citizens who have not yet voted for personal equality with an airline ticket to a State.**

The Puerto Rico Equality Forum is a 501 (c) 4 organization committed to pursuing and educating citizens on policies that will extend greater equality, better quality of life and sustained economic growth to the nearly 3.4 million Americans who still reside in the United States territory of Puerto Rico.

ⁱ The elimination of the EEI effective in late 2013 was well on its way to being accomplished when Puerto Rico's government changed on January 2, 2013 and its new administration ceased prioritizing that change in its economic agenda. Since then, it is estimated that overnight delivery services have expended over \$60 million in expenses to comply with the EEI requirement, which presumably has been passed on in higher rates to their clients.

ⁱⁱ If limited to \$23,760, the tax holiday would generate a \$906.82 yearly savings to both the employer and employee and \$1,817.64 to the self-employed, should the employee make the full salary limit. An average worker making \$16,000/yr and the employer would each save \$612.