MAKING PUERTO RICO A STATE: A WIN-WIN OPPORTUNITY

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ABSTRACT

Since Puerto Rico was ceded by Spain to the United States at the end of the Spanish-American War, the status of Puerto Rico has been adjusted at various times and has continually been an issue of controversy. In recent decades, the controversy has focused on whether Puerto Rico should become a state, remain in its current territorial status, or become an independent nation. This paper explains how Puerto Rico's territorial status has created a condition of dependency, doing substantial harm to the island's economic condition. The period of successful economic growth in decades immediately following World War II created some rapid economic growth, but firmly established the era of dependence that has been so economically detrimental. Thus the current status has to be rejected as a basis for long-run economic success in Puerto Rico. Statehood, in particular, holds out the likelihood of gains for both the United States and Puerto Rico, a win-win situation. The Puerto Rican people have increasingly come to favor the statehood option. With a recognition of the opportunity for a win-win outcome, the foundation for a move to statehood would be established.

Key Words: Puerto Rico status, Puerto Rico statehood, PROMESA

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In 1493, Puerto Rico was claimed for Spain by Christopher Columbus and remained a colony of Spain for almost 400 years. Then, in 1898, under the Treaty of Paris at the end of the Spanish-American War, the island was ceded to the United States.

In the many decades under U.S. rule, the status of Puerto Rico and its people has been surrounded by controversy and has undergone several adjustments. In 1917, Puerto Ricans were granted U.S. citizenship. Yet, the governor was still appointed from Washington, and through the mid-1940s, was always a non-Puerto Rican. Puerto Ricans on the island had no voting representatives in the U.S. Congress and no votes for the U.S. President.

In 1947, Puerto Rico was granted partial self-government, and in 1948 the first Puerto Rican governor, Luis Muñoz Marín, was elected. In 1950 President Truman signed the Puerto Rico Commonwealth Bill, paving the way for a 1951 vote on the island regarding commonwealth status, and in 1952 Puerto Rico's constitution was adopted, establishing a commonwealth with autonomy in internal affairs—albeit constrained by the U.S. Constitution and U.S. laws.

Yet, the constitution and commonwealth status did not end disputes over the relation of Puerto Rico to the United States. Whatever euphemism was used—commonwealth, territory, or *estado libre asociado* (free associated state)—the island remained under the rule of the United States. Even with a degree of "autonomy in internal affairs," Puerto Rico was not sovereign. It remained a colony.

One reaction to the status issue was a demand for independence. Shortly after the Commonwealth Bill of 1950 was enacted, Puerto Rican nationalists (i.e., people seeking Puerto Rican independence) attempted to assassinate President Truman, and in 1954 nationalists opened fire in the U.S. House of Representatives, injuring five congressmen. Over subsequent decades, the independence movement, though still present, has greatly weakened. Instead, opposition to the island's colonial status has increasing become a demand for statehood, and the dominant political dispute has been whether Puerto Rico should retain its current status or become a state.

While the Puerto Rican Republican Party had long favored statehood, it was only with the formation in the late 1960s of the New Progressive Party (NPP), formally unaligned with either Democrats or Republicans in the states, that the pro-statehood forces contended effectively for power on the island. The NPP has held the governorship and majorities in the legislature several times, including at present.

Four plebiscites have been held on Puerto Rico's status, in which statehood has increasingly gained favor among the population. In 1967, 39% of those voting chose statehood, while 60.4% opted for the existing commonwealth status. The statehood vote rose to 46.3% in 1993, to 48.6% in 1998, and to 61.2% in 2012. Another plebiscite is scheduled for June 11, 2017.[1]

If the June vote shows a continuation of the rising support for statehood on the island, the U.S. Congress will be under considerable pressure to act. Although several U.S. political figures have expressed themselves in favor of supporting the will of the Puerto Rican people, there remains opposition. Much of the opposition is based on the argument that Puerto Rico as a state would be a burden on the U.S. government—which ultimately means U.S. taxpayers.

On the contrary, however, it is the current colonial status of Puerto Rico—or, if one prefers, the current territorial status—that creates a burden for the United States. Indeed, the burden has become acute with the island's decade-long recession and the associated crisis of the public debt. *Statehood, in fact, presents a way out, a win-win opportunity, benefiting both Puerto Ricans and the U.S. government—that is, both the people on the island and the people in the (current) states. The potential benefits are both economic and political (in terms of human rights issues).*[2]

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[1] In the plebiscites, there has often been controversy over the wording of the questions, and, consequently, the legitimacy of the results has been in dispute.

[2] It needs to be emphasized that the economic costs to the United States of the current status are acute at the current time, with Puerto Rico's recession and public debt crisis. But it is myth that Puerto Rico is a "welfare island" (as dubbed by a May 27, 2006, *Economist* article), continually dependent on "handouts" from the U.S. government. As a footnote below points out, in relations between the per capita federal expenditures it receives and the per capita federal taxes it pays, Puerto Rico is less dependent on the federal government than are many states.

The Economics of Statehood

The most important economic point to recognize about the consequence of Puerto Rico becoming a state is that statehood would provide the necessary foundation for economic growth on the island. Economic expansion over the longer run will both provide a revenue stream to the U.S. Treasury and establish a "growth pole" with positive impacts for economic activity in other states. (In the short-run, halting the island's current recession and dealing with the debt crisis would likely present Washington with some short-run costs, but these costs will be incurred whether Puerto Rico becomes a state or remains a territory.)

To appreciate the economic potential of statehood, it is useful, first, to recognize that the reality of Puerto Rico's poor economic performance predates the severe recession that began in 2006.

Decades of Poor Performance

The post-World War II policies of using federal tax breaks to attract U.S firms to then low-wage Puerto Rico and the advantage of special access to the U.S. market brought a period of rapid economic growth to the island, but these policies stopped working long ago. With rising wages, Puerto Rico ceased being a low-cost site for manufacturing. Also, as the world economy changed, many low-wage countries gained access to the U.S. market. Even when the policies of the postwar era appeared to work, bringing rapid growth and transformation of the economy in the 1950s and 1960s, they enmeshed the Puerto Rican government in a deeply dependent approach to economic policy. The consequence has been an era of poor economic performance.

In 1976, writing in her undergraduate thesis at Princeton University, current Supreme Court Justice, Sonia Sotomayor, focused on the impact of the economic program of the 1950s and 1960s, the so-called Operation Bootstrap (*Operación Manos a la Obra*).[3] She argued that the program, promoted by the island's first Puerto Rican governor, Luis Muñoz Marín, had failed because it:

[3] Sonia Maria Sotomayor, *La Historia Cíclica de Puerto Rico: The Impact of the Life of Luis Muñoz Marín on the Political and Economic History of Puerto Rico, 1930-1975*, Princeton University, Senior Thesis, Department of History, April 16, 1976.

> "…was based on a negation of self-sufficiency and an acceptance of utter dependency on the colonial master, the United States. Manufacturing firms in Puerto Rico were almost completely export oriented to the mainland market….Puerto Rico was also dependent on the United States for its investment capital." (p. 98)

> "Operation Bootstrap allowed Puerto Rico to improve in absolute terms," but Muñoz Marín's program "had failed to bring Puerto Rico to the level of the poorest state, Mississippi, of the Union as he had promised in his campaigns of the forties." (p. 90)

> "Dependency had a very real economic component which created the failures of Operation Bootstrap. Operation Bootstrap failed because Puerto Rico accepted its own colonial inferiority…Unemployment, absentee ownership, expatriation through migration, federal aid—in a word, dependency was the legacy of Puerto Rico left by Operation Bootstrap." (p. 89)

Since at least the late 1970s, the Puerto Rican economy has been falling further and further behind the U.S. economy. Between 1980 and 2000, while GNP grew by 60% in Puerto Rico, the U.S. economy expanded by 90%. For the short 2000 to 2006 period, the Puerto Rican economy did grow as rapidly as the U.S. economy, but then Puerto Rico's recession emerged. By 2015 the Puerto Rican economy was 2.2% smaller than in 2000, while the U.S. economy, even with the Great Recession, grew by 30% in those fifteen years. (These figures are all inflation adjusted.)[4]

Giving prescience to Justice Sotomayor's 1976 insights, Puerto Rico's dependent status as a territory of the United States has largely defined economic policy for decades. Under the control of the U.S. government, economic policies have been directed outward to obtain special favors

[4] Not only did many observers fail to recognize the relatively poor performance of the Puerto Rican economy in the final decades of the 20th century, but many viewed it as strongly growing. Their error was in viewing the growth of GDP as the meaningful indicator of economic progress on the island—an issue discussed below.

from Washington and investment from firms based in the United States. Those "favors" have come in large part in the form of federal tax breaks for U.S. investors (Section 936 of the U.S. Tax Code, in particular), as well as tax breaks provided by the Puerto Rican government. The tax breaks, however, did much more for the profits of the firms than for employment or output expansion.[5] Of greater importance, the tax breaks distorted the economy, and they obstructed the formulation of an economic strategy focused on Puerto Rico's strengths.

These policies, first, undercut the emergence of strong *Puerto Rican* foundations for growth, retarding the expansion of Puerto Rican based business and the development of a skilled labor force.[6] (Note, for example, the weakness of the Puerto Rican educational system.) With firms from the United States dominating the island's major industries, there has been little room for the emergence of Puerto Rican entrepreneurs. The large firms have generally not spawned smaller, locally based suppliers. To a large extent locally based business has been pre-empted and, in effect, pushed aside by firms based off the island.

Moreover, the bureaucracy, which can be handled by large firms, greatly limits the attempts by residents to create startup firms. For large firms, the cost of obtaining permits for starting a business and the personnel needed for complying with the numerous regulations affecting operations are relatively small burdens. For small firms, locally based startups in particular, these burdens can be prohibitive. It is much easier for Puerto Ricans with entrepreneurial skills and ambitions to move to the mainland. Second, these policies generated a bloated manufacturing sector in Puerto Rico, with pharmaceuticals in the lead. Yet, Puerto Rico has had no particular advantage in manufacturing, and the buildup of this sector diminished realms of activity in which

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[5] For example, when Section 936 was in full-force in the late 1980s and early 1990s, for the pharmaceutical firms, it cost the U.S. government on average more than $3.08 in lost tax revenue for each $1.00 in wages paid in Puerto Rico by the firms. U.S. See, Department of the Treasury, "U.S. Possessions Corporations Returns, 1987," Tables 1 and 2, as cited by J. Tomas Hexner et al., *Puerto Rican Statehood: A Precondition to Sound Economic Growth*, Second Edition, Hex, Inc. Cambridge, 1993, p. 27. The ratios of cost to wage benefits are excessively conservative as they are based on the assumption that the persons employed in the 936 industries would otherwise be unemployed

[6] In his *Puerto Rico: Negotiating Development and Change* (Lynne Rienner Publishers, Boulder and London, 2003, pp. 78 and 79), James Dietz has usefully summed up the situation: "…Puerto Rico's strategy of development lacked a focus on the systematic support or fostering of local entrepreneurs and local sources of finance." As a consequence "the central role of domestic entrepreneurs, skilled workers and technological progress that underlies sustained economic progress" has been weaker in Puerto Rico than in sovereign nations where sustained economic progress has proceeded more rapidly.

Puerto Rico could have real advantages—for example, tourism and business services linking the United States to the rest of the Caribbean and Latin America.[7]

The degree of Puerto Rico's dependence on U.S. based investors (and other external investors), as well as on the tax breaks that have brought them to the island, shows up in the large difference between gross national product (GNP) and gross domestic product (GDP). GNP is a measure of the economic activity attributable to nationals of a nation or territory, while GDP is a measure of the economic activity within the nation or territory. In 1960 these two measure of Puerto Rico's economic activity were virtually the same. Over the next several decades, GDP, which includes the profits of firms based off the island, grew substantially more than GNP, which does not include those profits. By 2000, GDP was 50% larger than GNP, and the GDP-GNP ratio has stayed roughly stable in subsequent years. The GDP-GNP gap indicates that a great deal of the income generated on the island goes neither to Puerto Rican workers nor Puerto Rican firms. The gap also reveals a distribution of economic power, a dependence on firms based off the island.[8]

Although there have been some gains from U.S. firms' investments in Puerto Rico, all forms of investment have been inhibited by the uncertainty which surrounds the island's political status. The push for and possibility of status change mean that investors are continually uncertain about the nature of economic policies and conditions under which they would operate. This uncertainly leads to both a bias against long-run investments and limited business support for building the foundations of the economy—especially, education and physical infrastructure. Only status change can remove this uncertainty and its detrimental consequences.

[7] Puerto Rico's situation has been an ironic inversion of the so-called "Dutch disease," whereby a country or region's wealth in a natural resource (oil, natural gas, copper, etc.) has retarded the development of other activities—manufacturing, in particular—to the long-run detriment of the country or region. In Puerto Rico, it has been the expansion of manufacturing that has retarded the development of other activities. However, unlike the situation with natural resources, there is nothing "natural" about the centrality of Puerto Rican manufacturing.

[8] An indeterminate but surely substantial amount of the profits, and thus a significant amount of the GDP-GNP gap, does not even flow from actual activity in Puerto Rico. Pharmaceutical firms (and perhaps others) have located the ownership of patents with their Puerto Rican subsidiaries, and thus the returns to those patents show up as profits in Puerto Rico.

The Economic Potential of Statehood

Most broadly, statehood, establishing a permanent status for Puerto Rico, would greatly alter the environment in which economic activity takes place on the island. In particular, statehood for Puerto Rico would immediately remove the economy-limiting uncertainty. Statehood would generate more and longer term investment because statehood is immune to change. In addition, as a state, Puerto Rico would be more attractive as a tourist destination and as a site for retirement and vacation homes for people in the other states. This change in status would open up possibilities for rapid economic growth, full realization of the Puerto Rican people's potentials.

Beyond the uncertainty issue, statehood would bring many aspects of Puerto Rican government activity under greater discipline, effectiveness, and efficiency. Tax collection, in particular, would be tied more closely to the IRS. And in realms from data collection to regulatory oversight, statehood would bring advances that would strengthen the foundations for private investment, employment, and economic growth. Most important, these particular changes would be part of a whole new political context for the formulation and operation of economic policy in Puerto Rico. As part of the United States instead of only a territory of the United States, the aura of dependency, which has affected policy for decades, would fade and ultimately disappear.

Especially important, Puerto Rico would have a voice in Washington, with its full share of congressional representatives and votes for president. Policies would not be placed *onto* Puerto Rico by Washington, but would be created *along with* Puerto Rico. As to federal programs, full representation in Washington would quickly move Puerto Rico onto a level playing field with the other states. For example, statehood would make Puerto Rico and Puerto Ricans on the island fully eligible for several federal programs, as are their fellow citizen in the states. Prime examples are the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The impact is substantial:

- With all eligible Puerto Ricans applying for and receiving the EITC and CTC (which could take a number of years), the direct stimulus could be as much as $1.8 billion per year. When multiplier effects are taken into account, the overall impact of the infusion of these funds would raise income by close to 4%. Together, the infusion of funds and the greater engagement in productive work (encouraged by these programs) would make a major contribution towards transforming the island's economy out of relative stagnation onto a healthy growth path.

- A two-parent, two-child family in Puerto Rico with a gross income of $28,000 would see its net income, after federal taxes and these two federal credits, rise by $6,622. The family in Puerto Rico, U.S. citizens, would then be on the same level as a family in the states with two parents, two children and a $28,000 gross income. Fairness.[9]

With Puerto Rico as a state and thus fully eligible for these and other federal programs, there would be a short-run cost to the U.S. Treasury. But the injection of funds to the island would be one factor in building the foundation for economic growth and stability, which would generate longer run benefits to the federal government. (And see the footnote below regarding the net federal expenditures to states and Puerto Rico in recent years.)

The economic value of statehood for a low-income state (which Puerto Rico would be upon becoming a state) is evident in the general process of income convergence among the states over the last several decades. For example, in 1940, Mississippi, the lowest income state, had a per capita income 22% of that in Delaware, then the highest income state. In 2010, per capita income in Mississippi, still the lowest income state, was 50% of that in Connecticut, which had become the highest income state. Many other examples would tell the same story. Several factors account for this convergence, including: representation in Washington; the degree of integration of capital, labor, and product markets; and the common set of laws and regulations. Some of these factors also operate for Puerto Rico, but the connections between Puerto Rico and the states are not as effective as the connections among the states. And the representation in Washington is missing.[10]

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[9] The example here is based on tax regulations for 2015.

[10] See Fernando Lafort, "Is Puerto Rico Converging to the United States?" Working Paper 1003, International Tax Program, Harvard University, October 1997.

All of these factors that would come with statehood—reduction of uncertainty, greater discipline and effectiveness of government policies, full inclusion in federal programs—would generate economic progress in Puerto Rico. This economic progress, short-run costs notwithstanding, would be beneficial for Washington and the U.S. populace.[11]

Beyond the contributions to the U.S. Treasury that Puerto Rico as a state would make as its economy grew, the island's economy is already heavily integrated with the national economy, a degree of integration that would only grow with statehood. In 2015, Puerto Rico imported $22.3 billion of goods and services from the states and exported $51.4 billion of goods and services to the states. In a national economy of over $17 trillion, these are not large numbers. However, the jobs that are created by sales to Puerto Rico and the activities that are dependent on the imports from Puerto Rico—which include, for example, large amounts of pharmaceuticals, medical devices, and chemicals—are not trivial or irrelevant to the well-being of people in the states.

The importance of economic growth on the island for other states depends on the size of the Puerto Rican economy as well as its extent of trade with the states. On this score, of course, Puerto Rico's economy is not large. It is, however, larger than that of several states. In 2013, Puerto Rico had a GDP larger than fourteen states. By the more meaningful measure of GNP, the Puerto Rican economy was larger than the economies of eleven states in 2013. Economic growth in Puerto Rico, even under the most favorable circumstances, will not drive the U.S. economy, but the "growth pole" it could provide would be of significant value.

[11] However, there really is no basis for holding Puerto Rico, were it to become a state, up to the standard of paying more into the U.S. Treasury than it would receive in federal expenditures. In terms of net federal expenditures per capita (i.e., direct federal expenditures per capita to a state minus federal taxes per capita from a state), *in 2004 and 2010, seventeen states and the District of Columbia received more in net federal expenditures per capita than did Puerto Rico.* That is, in those two years, in more than one-third of all the states, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received from the federal government to Puerto Rico. Moreover, in 2010, only six states paid more to the federal government than they received in federal expenditures—i.e., negative net federal expenditures per capita. (Since 2010, data on which these calculations are based are no longer available. But there is no reason to think that 2004 and 2010 were unusual with respect to federal expenditures and taxes.)

Basic Principles of Human Rights

While the economic considerations make a compelling case for Puerto Rican statehood, there is, perhaps, an even stronger case for statehood based on the principles of human rights. Puerto Ricans are U.S. citizen, with citizenship granted to them in 1917. Yet, Puerto Ricans living on the island are second class citizens. They do not have the right to vote for congressional representatives or for the president.[12] They do elect a Puerto Rican legislature and a governor, but both operate subject to the U.S. constitution and the laws and courts of the United States. Puerto Rican laws can be overturned by U.S. courts (as, for example, was the case in 2016 when the U.S. Supreme Court overturned a Puerto Rican bankruptcy law, which, if upheld, would have provided a means to attenuate the government's debt crisis). As a territory, Puerto Rico does not have sovereign power.

This limited citizenship, whereby Puerto Ricans have no say in the ultimate authority by which they are governed, is in conflict with basic principles of human rights, principles formally subscribed to by the U.S. government and the U.S. people. This fact alone makes the current territorial status of Puerto Rico unacceptable.

Limited citizenship, however, is not only a matter of principle but also has negative practical impacts for Puerto Rico. Especially important and as emphasized above, in many federal programs Puerto Rico is treated more poorly than are states. Without votes for congress and the president, this poor treatment is the consequence.

Beyond principles and practical impacts, the limited status of Puerto Ricans on the island is also a blot on the U.S. human rights record, working to the detriment of the United States in world affairs. In the eyes of official Washington and of many in San Juan, Puerto Rico is a U.S. "territory." But in much of the world and among many Puerto Ricans, Puerto Rico is viewed as a

[12] Puerto Ricans on the island do elect a single Resident Commissioner, who is, in effect, a non-voting member of the U.S. Congress.

U.S. “colony.” To hold areas as colonies is widely seen as quite negative, involving a denial of basic human rights.

The issue of human rights makes the current status of Puerto Rico untenable as a matter of principle, and it also damages the United States it its international operations. Statehood would halt the damage. As with the economy, the principles of human rights would make the status change a win-win situation.

The Current Situation and What Can Be Done

In the short-run, however, there is little likelihood of Puerto Rico becoming a state. Although the latest plebiscite, that of 2012, showed that a majority of Puerto Rican voters favored statehood, an even greater push will be needed to sway Congress and U.S. voters in favor of statehood. That push is likely to come via the new plebiscite scheduled for June 2017. When that push is combined with a recognition that statehood presents a win-win opportunity, status change, the move toward statehood, can pick up momentum.

Neither the island’s vote for statehood nor the economic decline had received much notice in either the press or Congress until it became clear that Puerto Rico might default on its public debt. The debt crisis, however, combined with an impending humanitarian crisis on the island and the pressure in some states of the large migration from Puerto Rico, brought attention to the Puerto Rican economic debacle. Along with a plethora of stories in the media, Congress took action, enacting the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) on June 30, 2016.

In Puerto Rico, the impetus for status change in Puerto Rico has become increasing strong as the economy has been in virtually continuous decline for over a decade. In 2016, GNP (inflation adjusted) was 8.5% below its 2006 peak, and the Government Development Bank’s Economic Activity Index fell by 18% in this decade. What’s more, Puerto Rico’s population has declined by over 10% since 2006, as hundreds of thousands of people have moved to the states in search of employment and more economically secure lives.

Also, as the economy has declined, the government of Puerto Rico has increasingly taken on debt. By 2016, the public debt was roughly equal to the island's GNP of $70 billion. Indeed, in June 2015, the governor had declared that the debt was unpayable; without effectively destroying essential public services, the government simply did have the funds to pay its creditors. (In addition to the $70 billion debt to bondholders, public pension funds have been severely underfunded, and are owed approximately $40 billion by the government.)

PROMESA, however, was based on the premise that the economic problems in Puerto Rico were due to bad policy choices by the Puerto Rican government. Thus, it established an Oversight Board to in effect control the Puerto Rican government's fiscal policy. It also created a Revitalization Coordinator, appointed by the Governor from a list of nominees provided by the Oversight Board. The Coordinator would have control over the selection and implementation of infrastructure projects, which are seen in PROMESA as an important foundation of economic recovery. PROMESA also created a bipartisan Congressional Task Force to examine ways that federal policies might be changed to positive affect the situation in Puerto Rico. Unlike that Oversight Board and the Revitalization Coordinator, both of which had real power over Puerto Rican policy, the Task Force was limited to making recommendations.

Beyond funds for these bodies to operate, PROMESA provides no funds or procedures of support for Puerto Rico. As to the debt, the act does establish a period in which litigation by creditors cannot be undertaken while the Puerto Rican government and debtors undertake *voluntary* negotiations to restructure the debt. No procedures are established that would allow Puerto Rico to move in a bankruptcy-type procedure where a court would impose the conditions of debt restructuring. And a principal purpose of PROMESA is to avoid a U.S. government debt bailout.[13]

The Congressional assertion of control over the Puerto Rican economy via the Oversight Board and Revitalization coordinator was widely perceived in Puerto Rico as an assertion of U.S. colonial control over the island and as undermining (if not destroying) the idea that Puerto Rico

[13] According to the Speaker of the House, Representative Paul Ryan, the PROMESA "addresses the fiscal crisis in Puerto Rico and prevents a bailout for the island…" See the Speaker's website: http://www.speaker.gov/general/what-you-need-know-about-house-s-puerto-rico-bill.

was a "self-governing territory." The resentment against PROMESA has been exacerbated as the Oversight Board has given principal insistence to the Puerto Rican government establishing a balanced budget as quickly as possible, which means, of course, the continuing implementation of an austerity program that is most likely to worsen economic conditions.[14]

In spite of Congress's assumption that the economic and financial problems in Puerto Rico were the responsibility of the Puerto Rican government and that the those problems could be repaired by action in Puerto Rico, it is relatively clear that the situation on the island is so serious that important *actions are needed in Washington for the decline of the Puerto Rican economy to be halted and a basis for economic growth established*. Examples of these actions include:

- **A Level Playing Field.** Furthermore, the federal government could and should provide funds to Puerto Rico and the U.S. citizens in Puerto Rico simply by treating them under important federal programs in the same manner as states and citizens in the states are treated. Examples include the Earned Income Tax Credit, the Child Tax Credit, Medicare and Medicaid, Supplemental Nutritional Assistance, and several others. (The programs that do not apply in Puerto Rico as they apply in the states are listed and explained in the report of the PROMESA-created Task Force.)

- **"Bankruptcy."** The Puerto Rico government cannot declare bankruptcy, as it is excluded from federal bankruptcy legislation. Moreover, the Puerto Rican constitution requires that payment on a large share of the public debt be given priority over all other categories of government expenditures—education, health, public safety, infrastructure investment, etc.

  A moderate course of action would be for the federal government to establish a procedure for *de facto* bankruptcy on that share of the debt—the majority—that is not covered by the constitutional protection. If, for example, restructuring the portion of the debt that is not

[14] In the wake of the enactment of PROMESA and the rejection by the U.S. Supreme Court of a Puerto Rican law that would have allowed a means for the Puerto Rican government to deal with its debt, the Puerto Rican journalist Rafael Matos wrote in a July 14, *New York Times* op-ed essay, "In vulgar street talk here, Puerto Rico has been stripped naked and put on show to be shamed. This after we'd grown up being told we had a unique privileged relationship with the United States—we were full citizens, free to migrate north, and autonomous to govern our own affairs. A bit like a state, without surrendering our Latin personality. But now it is clear that was a charade."

constitutionally protected could result in the annual debt service being halved, about $1.3 billion could be saved annually—i.e., made available for supporting government basic needs and activities that would be crucial for economic expansion.

- **New Bonds.** Yet, more funds will still be needed to support meaningful expansion. In part, these additional funds could be obtained on the bond market at a reasonable rate if the federal government would provide guarantees of these new bonds. With the oversight of the PROMESA-created Oversight Board and Revitalization Coordinator, there would be substantial assurance that these funds would be used in a productive manner, generating the economic growth for their repayment.

These are examples of modest actions, ways that the U.S. government could provide a foundation for a renewal of the Puerto Rican economy. More could be done, but these action would provide a useful beginning.[15] An example of the way these actions could have a positive impact on the Puerto Rican economy is that they would allow a "big push" through public infrastructure investment. Improving and expanding the island's infrastructure would establish a foundation for a resurgence of private sector investment. However, because of the extent of decline that has occurred over recent years, for such public investment to play a major role in turning around Puerto Rico's economy, it must be very large—a "big push."[16]

[15] Of course, such actions, if they are to have significant impact, must be accompanied by policy changes in Puerto Rico. Examples include effective tax collection and greater efficiency in government practices (especially, with business permitting and by the elimination of unnecessary and counter-productive regulations). Policy changes in San Juan, however, will do little to rectify the economic situation without substantial action from Washington.

[16] For an examination of the impact and financing of a $20 billion "big push," see, J. Tomas Hexner and Arthur MacEwan, "Reviving the Puerto Rican Economy Requires: A Big Push of Public Infrastructure Investment," Paper submitted to the PROMESA Task Force, August 23, 2016. This paper estimates that a $20 billion "big push" would expand permanent output expansion by $6.7 billion and create 93 thousand permanent new jobs. Yet, these estimates of the GNP and employment impacts are conservative because (except for the normal multiplier impact of the investment) they do not include the extent and impact of new private investment, which would surely be substantial. Indeed, the surge of public infrastructure investment, while valuable in terms of immediate growth and employment effects, is justified largely because of the impetus it would create for private sector development. In its "Fiscal Plan" issued on February 28, 2017, the Government of Puerto Rico recognized the need for such investment, but proposed an allocation of only $4.5 billion over the coming decade for this purpose. Government of Puerto Rico, Puerto Rican Fiscal Agency and Financial Advisory Authority, *Fiscal Plan*, February 28, 2017, p. 79.

The long decline of the Puerto Rican economy has thoroughly undermined the confidence of private sector investors. Between 2006 and 2015, private gross domestic investment fell from 15.5% of GNP to 10.4% of GNP, even as GNP fell by 11%. To affect the views of private investors, to convince them that the economy is turning around, and to reinvigorate private investment will require a "big push" in public infrastructure investment.[17]

Responsibility for Action

When the United States invaded Iraq and brought about "regime change," Colin Powell famously stated, "When you break it, you own it." He meant of course, that the United States had become responsible for the situation in Iraq, problems and all. Ownership means responsibility. With Puerto Rico, U.S. ownership is not simply figurative. As a territory of the United States, Puerto Rico is literally owned by the U.S. government. According to the U.S. Constitution (Article IV, Section 3, Paragraph 2), "The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States." With that ownership comes responsibility.

The responsibility of the United States government toward Puerto Rico cannot be fulfilled simply by particular actions aimed at improving the island's economy and resolving the current debt crisis—though even effective action at that level has so far been lacking. The needed action is to recognize the will of the Puerto Rican people, which is likely to be clear through the plebiscite scheduled for June, and establish the legislation to create Puerto Rican statehood.

There will, of course, be opposition. Within Puerto Rico, in addition to those who favor the current status, there are those who favor independence. Independence would resolve the human rights issue that goes with colonial status. Yet, while the demand for independence has long historical roots, it appears to have limited support for in recent years. Moreover, in general the economic experience of small island countries does not provide a basis for optimism regarding

[17] The data here are from the *Informe Económico al Gobernador, Puerto Rico, 2015*. The fall of public sector investment in this period was even greater than that of the private sector, declining from 5.0% of GNP to 2.1%. If the level of public sector investment had been the same percentage of GNP in 2015 as in 2006, it would have provided an additional $2 billion, a good start on a "big push."

the economic conditions in an independent Puerto Rico. In any case, it seems unlikely that the U.S. Congress would grant independence and allow Puerto Ricans, especially coming generations, to maintain U.S. citizenship—which is one of the planks in the platform of the pro-independence party.

Within the United States, there are a variety of bases of opposition to Puerto Rican statehood. The most important means to overcome this opposition will be for the U.S. Congress and people in the United States to recognize the economic and human rights benefits that they would experience, as well as the benefits that would come to Puerto Rico, as a result of statehood. These benefits, the win-win opportunity, have been explained here. Part of recognizing this opportunity is to also recognize that Puerto Rico is in fact a colony, a status that by human rights and economic standards cannot be continued.

Widespread recognition of the win-win opportunity is a key to moving Puerto Rico from colonial status to statehood.