

Puerto Rico: The Myth of “Generous” Treatment by the Federal Government

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There is a myth about Puerto Rico that arises in Washington and at times in the media. The myth is that in economic terms Puerto Rico is treated “generously” by the federal government.

The myth often goes further, asserting that the federal government’s “generous” treatment of Puerto Rico undermines economic growth on the island. In a 2006 article, *The Economist* magazine, dubbed Puerto Rico a “Welfare Island,” claiming that excessively generous economic support from the federal government was weakening work incentives, generating an exceptionally large bureaucracy, and retarding economic growth. Sixteen years later, this view of Puerto Rico persists.

Yet, the myth was false in 2006 and remains false in 2022.

Compared to the states, Puerto Rico does not receive an especially large amount of federal funds. Puerto Ricans on the island are, of course, U.S. citizens. They do not, however, receive the same level of support in federal programs as do U.S. citizens in the states. Puerto Ricans on the island are, in fact, treated as second class citizens.*

Indeed, not only is the myth of generous federal support wrong, *but by reasonable standards Puerto Rico should receive a larger amount of federal funds.* Simple fairness would indicate that the island should receive more, and more funds would also improve the well-being of Puerto Ricans and provide a large economic stimulus that would enhance economic growth. The loss of these funds over decades has deprived the Puerto Rican economy of a huge stimulus.

The Overall Picture

Consider first the overall picture, how Puerto Rico compares to the states in the amount of funds it receives from the federal government in a year. The most relevant measure of the economic support that Puerto Rico or a state receives from the federal government is the per capita Net Federal Expenditures (NFE) – that is, the federal expenditures going to Puerto Rico or a state minus the taxes going from Puerto Rico or a state to the federal government.

* An effective statement regarding the “second-class” citizenship of Puerto Ricans is provided by Yarimar Bonilla in “For Puerto Ricans, Another Reminder That We Are Second-Class Citizens,” *The New York Times*, May 19, 2022, <https://www.nytimes.com/2022/05/19/opinion/puerto-rico-supreme-court-social-security.html>, and in the print edition of May 22, 2022. Dr. Bonilla is the director of Centro, the Center for Puerto Rican Studies at Hunter College, and a professor of anthropology at the City University of New York Graduate Center.

In fiscal year 2019 (the most recent year for which full data are available), the NFE coming to Puerto Rico was \$7,087 per capita, while Kentucky received \$14,153 per capita. Kentucky was at the top of the list, but the NFE to Alaska was \$10,144, and \$8,261 went to Maryland; West Virginia and New Mexico received \$7,681 and \$7,179, respectively. Mississippi and Alabama were just below Puerto Rico, at \$7,007 and \$6,737, respectively. (Appendix Table A1 provides the figures for Puerto Rico and all states.)

Moreover, in fiscal year 2019 Puerto Rico received an unusually large amount of federal funds because of federal assistance for recovery and reconstruction after the hurricanes of September 2017. If Puerto Rico's NFE for fiscal year 2019 is adjusted downward by estimating and eliminating much of federal transfers and FEMA grants to Puerto Rico that were hurricane related, most states received a larger NFE per capita in 2019 than did Puerto Rico. (The adjusted figure is shown in the Appendix Table A1.)

These aggregate data, however, can be misleading. Most of the federal funds Puerto Rican individuals receive (more than two-thirds in most years) are for Veteran Benefits, Medicare, and Social Security, returns on what Puerto Rican's have paid, financially or in military service—not some form of “welfare.” Both the aggregate data and these particulars suggest that if anyone persists in viewing Puerto Rico as excessively dependent on federal funds, as a “welfare island,” they should acknowledge that many states are similarly dependent. Better yet would be to drop this simplistic rhetoric entirely. (Appendix Figure A1 shows the distribution of federal funds coming to Puerto Rico from 2011 to 2020.)

Major Social Programs, People's Well-Being, and Economic Stimulus

With regard to major social support funds provided by the federal government, Puerto Rico is not treated the same as people in the states. Table 1 shows for each of five major programs the amount of federal funds provided per recipient in Puerto Rico and the states.

Table 1: Federal Funds Provided Annually to Eligible Individual Recipients in Five Major Programs in the States and Puerto Rico (2020 or 2021)

	<u>States</u>	<u>Puerto Rico</u>
Supplemental Security Income (SSI)	\$7,506	0
Nutritional Assistance	\$2,618	\$1,955
Medicaid	\$6,671	\$2,027*
Medicare	\$13,208	\$8,848
Earned Income Tax Credit (EITC)	\$2,411	0

Sources and methods are provided in the Appendix

* The figure here is for 2020, and in the period since 2020, Puerto Rico was provided with an additional 20% in federal Medicaid funding.

Although Puerto Ricans on the island receive substantially less in federal funds under these programs than do residents in the states, in some of these programs the Puerto Rican government supplies additional funds. For example, under Medicaid, as is the case with state governments, the Puerto Rican government pays a share of the total costs from its tight operating budget. The Puerto Rican government, however, has long paid a higher share of costs than it would pay if the formula for determining a state government's share were applied to the Puerto Rican government.

Moreover, since 2020 and 2021 (the years of the data in Table 1), partly in response to the pandemic, Puerto Rico has received additional federal funds. For example, as indicated in the note to Table 1, federal Medicaid funds were increased by 20% in the subsequent years (though this increase is not permanent). It is of special importance that, first, in 2022 Puerto Rico is receiving \$600 million in federal funds to support expansion of its own EITC; and second, the federal child tax credit, that was formally available in Puerto Rico only for families with three or more children has now been made available to families with one or two children, as is the case in the states.

The \$600 million for support of Puerto Rico's own EITC merits special emphasis because it is a permanent allocation, will be adjusted for inflation each year, and will make a large difference. According to the Puerto Rico Fiscal Agency and Financial Advisory Authority, with new provisions established in 2018, with tax forms filed for the taxable year 2019, "The [Puerto Rican] Treasury chief estimated that the EITC ... will distribute about \$204 million to salaried workers in Puerto Rico." The \$204 million are Puerto Rican funds; the \$600 million in federal funds will roughly quadruple the amount that can be given out under the island's own EITC, and individuals will receive an amount close to what they would receive under the federal EITC.

This increase of funds through the EITC and some other changes of recent years are significant. Yet, with the EITC, as with the other programs listed in Table 1, even when amounts are increased, U.S. citizens in Puerto Rico are being treated less well than U.S. citizens in the states. Puerto Ricans are treated separately, and, as in other realms of social policy, "separate but equal" is generally unfair and unequal.

The Stimulus to the Puerto Rican Economy

The funds that individuals and families receive under social programs are, of course, important in affecting the economic well-being on the island. The federal funds, however, also provide an aggregate impact, a stimulus to the Puerto Rican economy, as they do for states.

Table 2 shows the difference for 2020 between the total amount of federal funds Puerto Rico received under the five programs shown in Table 1 and the federal funds Puerto Rico would have received had it been treated in the same manner as the states. Table 2 also shows the year of each federal program's inception, an issue of relevance shortly.

Table 2: Estimates Based on 2020 Data of the Additional Federal Funds that Would Come to Puerto Rico Were Puerto Rico Treated in the Same Manner as the States in Five Major Programs (millions of dollars); and Year of Each Federal Program's Inception

		<u>Year of Program's Inception</u>
Supplemental Security Income (SSI)*	\$970	1972
Nutritional Assistance*	\$85	1964
Medicaid**	\$5,767	1965
Medicare	\$3,052	1965
EITC#	\$800	1975
Total	\$10,674	

Sources: See Table 1 source notes in the appendix, which also apply to Table 2.

* The Nutritional Assistance and SSI figures are based on 2022 data.

** In 2021 & 2022, as noted above, federal funds for Medicaid in Puerto Rico have been increased 20%.

As noted in the text, \$600 million additional federal funds would roughly quadruple the funds for Puerto Rico's own EITC, which now provides about \$200 million. This implies that it would take about \$800 million in federal funds to treat Puerto Ricans the same as residents in the states.

The total of \$10.7 billion is especially large in an economy with a GNP of around \$70 billion. A shift in these federal programs to treating Puerto Rico and Puerto Ricans in the same manner as states and people in the states would provide a very large, in fact, huge, stimulus to the Puerto Rican economy. Of course, a change could be adopted gradually, but the impact would still be very great.

Also, the unequal treatment of Puerto Rico on these (and other) programs is not new. Four of the five have been in place for 50 years or more, and the EITC has existed for 47 years (see Table 2). The programs have been adjusted various times in the decades of their existence, but the relative magnitude of the difference between treatment in Puerto Rico and treatment in the states has been there all along. The accumulated benefits that have been denied to Puerto Rico – that would have come to Puerto Rico had it been treated in the same manner as the states – would amount to as much as \$175 billion. *In terms of the impact on individuals and the overall Puerto Rican economy, the cumulative effect has been extremely great, more than twice as large as the island's annual GNP or the debts that pushed the government into effective bankruptcy.* (The estimate of this \$175 billion is provided in the appendix.)

Those who attempt to justify the different treatment of Puerto Rico in federal programs often argue that the funds for several of these programs come from general federal revenue, to which Puerto Ricans on the island make no, or minimal, contribution. In particular, Puerto Ricans do not pay federal income taxes (except on income sourced in the states). This argument is applied to SSI, EITC, Nutritional Assistance, and Medicaid. Yet, in the states, the great majority of people who receive funding under these programs pay no or very little federal income taxes simply because their incomes are too low. Furthermore, the treatment of eligibility for the Child Tax Credit has created a precedent of irrelevance for this argument, as Puerto Ricans with three or more children have long been eligible and all families with children have recently been made eligible. Finally, while these programs are indeed funded from general revenue, their original rationale was that they would alleviate poverty. Surely, this rationale would apply to Puerto Rico, where the poverty rate of about 45% is roughly twice as high as in the lowest income states. (Puerto Ricans do pay Medicare taxes – as well as Social Security taxes – and thus the argument based on their not paying income taxes is irrelevant in this program.)

Federal Funds to Puerto Rico: Too Much or Too Little?

Whether Puerto Rico receives too much or too little funding from the federal government depends, of course, on what standards for judgement are applied. When, however, Puerto Rico is compared to the states, particularly the low-income states (see appendix Table A1), it is hard to argue that it is receiving too much. The suggestion in *The Economist* article of 2006 that the funds from Washington harm work incentives is undermined by recognition of informal (i.e., uncounted) work, the high amount of disability among Puerto Rican workforce, limited employment demand, and the opportunities that exist for work in the states. Moreover, if the high NFE going to Puerto Rico creates a negative work incentive, those states that receive even a larger NFE per capita would surely face a similar problem, but low labor force participation does not seem to be an issue in those states.

There are, furthermore, three principles that would seem to support the position that Puerto Rico receives too little funding from the federal government. One of these principles is that *federal funds should be directed to low-income areas of the country to improve living conditions in those areas*. The data in Table A1 (Net Federal Expenditures per capita) suggest that, to some degree, this principle is applied in practice among the states, but not to a substantial degree in Puerto Rico. Given the island's low level of income – and poverty rate hovering around 45% – Puerto Rico should rank at the top or near the top in the table.

The second and related principle is that *federal funds should be directed to promote economic growth in low-income areas of the country*, and even as a territory Puerto Rico is part of the United States. Puerto Rico, as is well known, has been in a recession for the last fifteen years, and, as both cause and effect of the recession, has been in a crippling debt situation. While the funds that have been regularly coming to

Puerto Rico have promoted the well-being of families and individuals, additional funds are now needed to stimulate economic expansion directly. To promote private sector growth, some action must be taken by the public sector to create conditions favorable for private investment. Most important would be a major increase in public sector infrastructure investment—improvement and extension of roads and bridges, educational and health care facilities, stable energy capacity, public transportation, water supply, internet capacity, etc. Puerto Rico itself, however, does not have the necessary resources. It is only by major funding for this investment from the federal government that this foundation for private sector expansion can be created. Twenty billion dollars of spending, stretched over a decade, could put the Puerto Rican economy on a positive growth path.

Although \$20 billion over a decade may appear to be an unreasonable large amount of money, it is small compared to the over \$10 billion that would come to Puerto Rico annually were the island treated like a state in federal programs.

The third principle that would support more funds for economic growth is *fairness*. Over decades, in major federal programs, Puerto Ricans, though U.S. citizens, have not been treated equitably compared to citizens in the states. The lack of fairness, the unequal treatment, has been pointed out above—and is evident in Tables 1 and 2 above. Unfortunately, on April 21, 2022, the U.S. Supreme Court ruled in the case of *United States v. Vaello Madero* that the Constitution does not require that citizens in Puerto Rico be treated the same as citizens in the states with regard to federal benefits. Nonetheless, Congress could still establish legislation that would provide for equal, fair treatment. (In federal legislation to deal with the Covid-19 pandemic, fairness between Puerto Rico and the states in the areas of these programs was somewhat improved, but Puerto Rico still received far less support than if the funds had been distributed to states and territories in proportion to population.)

It is, however, hard to imagine that a major increase in the amount of federal expenditures going to Puerto Rico could be accomplished simply on the basis of these three principles. In the allocation of federal funding, principles may not be irrelevant, but they only play a role within a highly politicized process. It is a process in which Puerto Rico has no players and minimal influence. Not a state, Puerto Rico has no voting members of congress and no votes for president.

There is, of course, intense competition among the 50 states for federal resources. Puerto Rico must join that competition to achieve sustainable economic growth.

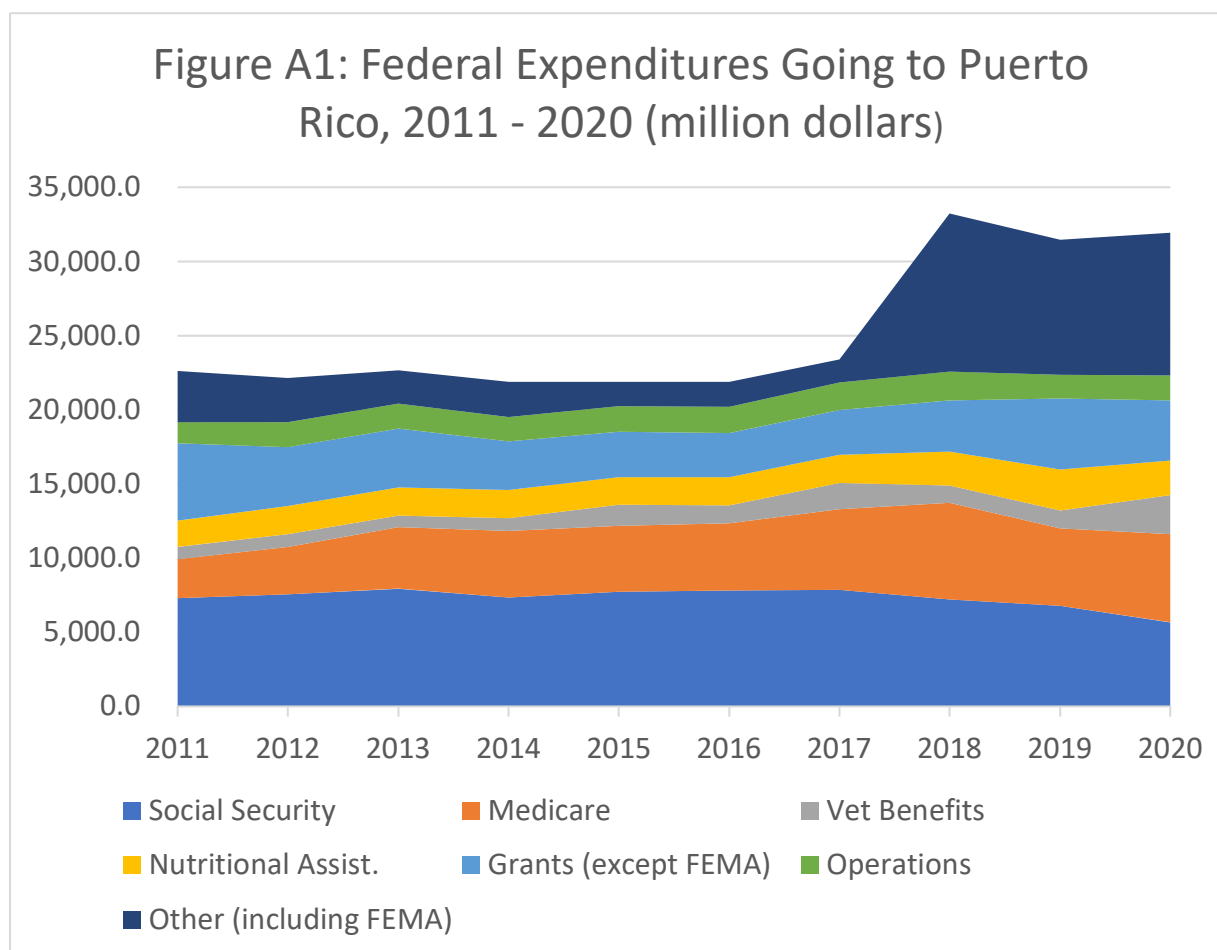
APPENDIX

Table A1: Net Federal Expenditures Per Capita (Expenditures Minus Taxes),
States, Puerto Rico, and Puerto Rico Adjusted, FY 2019

	Net Federal Expenditures Per Capita (NFE)	NFE Rank		Net Federal Expenditures Per Capita (NFE)	NFE Rank
Kentucky	\$14,153	1	Wyoming	\$2,796	26
Virginia	\$13,096	2	Oregon	\$2,684	27
Alaska	\$10,144	3	Indiana	\$2,445	28
Maryland	\$8,261	4	Michigan	\$2,419	29
West Virginia	\$7,681		Florida	\$2,375	30
New Mexico	\$7,179	6	Georgia	\$2,337	31
Puerto Rico	\$7,087		Kansas	\$2,160	32
Mississippi	\$7,007	7	South Dakota	\$2,037	33
Alabama	\$6,737	8	North Dakota	\$1,607	34
Hawaii	\$6,116	9	Iowa	\$1,492	35
South Carolina	\$5,479	10	PR Adjusted*	\$1,390	
Arkansas	\$4,761	11	New Hampshire	\$1,363	36
Maine	\$4,705	12	Wisconsin	\$1,227	37
Oklahoma	\$4,638	13	Nevada	\$1,217	38
Louisiana	\$4,534	14	Texas	\$673	39
Delaware	\$4,284	15	Nebraska	\$397	40
Arizona	\$4,246	16	Illinois	\$342	41
Montana	\$4,221	17	Washington	\$45	42
Tennessee	\$4,108	18	Utah	-\$130	43
Vermont	\$3,984	19	California	-\$168	44
Idaho	\$3,951	20	Colorado	-\$239	45
Missouri	\$3,837	21	Minnesota	-\$336	46
Ohio	\$3,593	22	New Jersey	-\$1,163	47
North Carolina	\$3,379	23	New York	-\$1,172	48
Pennsylvania	\$3,243	24	Massachusetts	-\$1,439	49
Rhode Island	\$3,205	25	Connecticut	-\$1,614	50

* Adjusted to eliminate the especially large and unusual federal funds coming to Puerto Rico for recovery and reconstruction after the hurricanes of September 2017.

Source: Rockefeller Institute of Government, *Giving or Getting? New York's Balance of Payments with the Federal Government* (January 2021), Table 4; for Puerto Rico adjustment, calculated from data in *Apéndice Estadístico del Informe Económico al Gobernador 2020*, Tablas 20, 21, and 22.



Source: *Apéndice Estadístico del Informe Económico al Gobernador 2020*, Tabla 20, 21, and 22. The 2020 figures are preliminary.

Note: The large jump in “Other (including FEMA)” after 2017 is explained largely by the influx of federal funds for hurricane relief and reconstruction. This high level of hurricane-caused funding continued into 2019 and into 2020 and was added to as a result of the earthquakes that have continued since 2019. However, the high level in 2020 seems to be in part a result of the early phase of federal funding to states and territories in response to the Covid-19 pandemic. The high level of “other” funding in 2019 masks the low amount of NFE that Puerto Rico normally receives relative to states, and thus the adjustment shown in the table above. Without the “other” funding, federal expenditures going to Puerto Rico were almost flat between 2017 and 2020. If adjusted for inflation, the small rise would be eliminated.

Sources for Table 1, which also apply to Table 2

The SSI figure here is derived from data in Social Security, Research, Statistics & Policy Analysis (Table 3), https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/#table3, US Census, Quick Facts, United States, <https://www.census.gov/quickfacts/fact/table/US/PST045221>, and *US Census, Quick Facts, Puerto Rico*, <https://www.census.gov/quickfacts/PR>. It was assumed (a) that monthly payments by age group would be the same in Puerto Rico as in the United States and (b) that the percentage of each age group in Puerto Rico receiving SSI would be the same as the percentage for each age group in the states.

The Puerto Rico nutritional assistance figure is calculated from the USDA, ‘Puerto Rico Food Nutritional Assistance Program,’ <https://www.fns.usda.gov/pd/puerto-rico-nutrition-assistance-program>. The figure for the states is from USDA ‘National Level Annual Survey,’ <https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap>.

For Medicaid, the Puerto Rico figure of 2020 is calculated from data in Medicaid and CHIP Payment and Access Commission (MACPAC), ‘Fact Sheet, Medicaid and CHIP in Puerto Rico,’ February 2021, <https://www.macpac.gov/publication/medicaid-and-chip-in-puerto-rico/>. The U.S. figure is calculated from data in the following sources: Medicaid.gov, ‘Medicaid and CHIP Enrollment Trend Snapshot,’ <https://www.medicaid.gov/medicaid/program-information/medicaid-chip-enrollment-data/medicaid-and-chip-enrollment-trend-snapshot/index.html>; CMS.gov, ‘NHE Fact Sheet,’ <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet#:~:text=Medicaid%20spending%20grew%209.2%25%20to%2028%20percent%20of%20total%20NHE>; and Kaiser Family Foundation, ‘Medicaid Financing: The Basics,’ <https://www.kff.org/medicaid/issue-brief/medicaid-financing-the-basics/#:~:text=Medicaid%20accounted%20for%207%20percent,federal%20government%20and%20the%20states>.

For Medicare the figure for Puerto Rico is calculated from the total amount of Medicare funding coming to Puerto Rico in 2020 and the number of Medicare enrollees in that year. The total figure is from Table 21 in *Informe Económico al Gobernador 2020*, <https://jp.pr.gov/index.php/informe-economico-al-gobernador/>. The number of Medicare enrollees in Puerto Rico does not seem to be available. So here the total enrollment is taken as the 700,000, which is the number of people in Puerto Rico who were 65 or older. While not all people in this age group would have been covered by Medicare, others below 65 would have been covered. It is assumed, then, that these two differences balance out. Number of people 65 or over is from the ‘Puerto Rico Demographic Profile, Index Mundi,’ [https://www.indexmundi.com/puerto_rico/demographics_profile.html#:~:text=3%2C142%2C779%20\(July%202021%20est.\)&text=White%2075.8%25%2C%20Black%2FAfrican,3.3%25%20\(2010%20est.\)&text=The%20World%20Factbook%2C%20the%20indispensable%20source%20for%20basic%20information](https://www.indexmundi.com/puerto_rico/demographics_profile.html#:~:text=3%2C142%2C779%20(July%202021%20est.)&text=White%2075.8%25%2C%20Black%2FAfrican,3.3%25%20(2010%20est.)&text=The%20World%20Factbook%2C%20the%20indispensable%20source%20for%20basic%20information). The figure for the U.S. is calculated from the CMS.gov, ‘NHE Fact Sheet,’ cited in the previous note.

The EITC figure here is calculated from the IRS, which reports that ‘Nationwide during 2021, 25 million eligible workers and families received about \$60 billion in EITC. The average amount of EITC received nationwide was about \$2,411· Earned Income Tax Credit & Other Refundable Credits,’ <https://www.eitc.irs.gov/partner-toolkit/basic-marketing-communication-materials/eitc-fast-facts/eitc-fast-facts#:~:text=The%20EITC%20credit%20ranges%20from,%243%2C618%20with%20one%20qualifying%20child>. For the EITC figure in Table 2, see Javier Balmaceda, ‘Tax Credit Expansions Expected to Significantly Reduce Poverty in Puerto Rico,’ Center for Budget and Policy Priorities, MARCH 14, 2022, [HTTPS://WWW.CBPP.ORG/BLOG/TAX-CREDIT-EXPANSIONS-EXPECTED-TO-SIGNIFICANTLY-REDUCE-POVERTY-IN-PUERTO-RICO](https://www.cbpp.org/blog/tax-credit-expansions-expected-to-significantly-reduce-poverty-in-puerto-rico).

Estimating the Lost Stimulus over 50 Years

To calculate the amount of additional federal funds that would have come to Puerto Rico over the life of these programs if Puerto had been treated in the same manner as the states, the amounts are presented in prices of today and the following assumptions have been made: (1) the amounts in previous years were 80% of the annual \$10.7 billion in the 2020/2021 period, which is to say that the annual amount averaged \$8.5 billion; (2) the full application of the programs would have been associated with Puerto Rico becoming a state, which would have meant that \$5 billion annually in federal (individual and corporate) income taxes would have flowed to the federal government each year; (3) the programs as a group have been in place for 50 years (i.e., the actual different length of the programs is ignored). Then the net flow of funds to Puerto Rico would have been \$3.5 billion annually, and the total amount over the 50 years would have been \$175 billion. (If Puerto Rico had not become a state, it is unlikely that it would have been treated equally with the states, though it could have received better treatment than it has received. In that case, the inflow would have been less than the \$8.5 billion annually, and there would have been no \$5 billion outflow of taxes. So perhaps the net inflow of \$3.5 billion would still be reasonable.)