**The Crisis in Puerto Rico: Statehood Cannot Wait**

**Puerto Rico needs to become the 51st state in order to establish strong, continuing economic development. Statehood will give Puerto Rico a voice in Washington, assuring that it is treated as well as other states in numerous government programs. And statehood will provide the stability and political discipline that is necessary for implementing effective economic policies. The people of Puerto Rico have voted against the current status and for statehood, and a recent poll shows that support for statehood is greater than the combined support of all other options. Statehood cannot wait!**

**Puerto Rico had been in economic decline for over a decade when two major hurricanes hit the island in September of 2017**. Before the hurricanes, Puerto Rico’s GNP had already declined by seventeen percent (adjusted for inflation), a huge and unpayable public debt inhibited basic government operations, and a mass exodus to the states had taken place, a decline of twelve percent in the island’s population.

**The double crisis of economic decline and hurricane damage continues, creating miserable living conditions for many Puerto Ricans**. **But the weakness of the Puerto Rican economy is not new.** Since the 1970s, Puerto Rico’s economy has fallen further and further behind the U.S. economy. Puerto Ricans, citizens of the United States, deserve better, much better.

Inflation Adjusted Growth of GNP

Puerto Rico United States

1980-2000 59% 92%

2000-2017 -11% 39%

**The Critical Issue**

**Yet, the critical issue behind this double crisis, the issue of the island’s political status, remains virtually invisible in Washington. The demand for statehood has been swept under the rug with the argument that the economy must be righted first. Yet, effective repair of the economy depends on Puerto Rico becoming the 51st state.**

Puerto Rico’s status as “territory of the United States” did not bring the hurricanes. **Yet, status, which denies Puerto Rico a voice in Washington, certainly produced the weak and delayed response of the federal government to the hurricanes.**

**And Puerto Rico’s long-term poor economic performance is connected to Puerto Rico’s political status. Most important, the current status has established an outward orientation and a failure to create foundations for growth within Puerto Rico.** Ironically, the weakness of the Puerto Rican economy was generated by the successful, rapid growth of Operation Bootstrap, in the early post-World War II decades. Because that growth was based in part on tax breaks for U.S.-based manufacturing firms, it helped create the myth that Puerto Rico’s economic success lay in special favors from Washington and investment by U.S. firms.

**In a prescient critique of policies of Operation Bootstrap, U.S. Supreme Court Justice Sonia Maria Sotomayor summed up the situation in her 1978 college thesis.** She recognized that Operation Bootstrap allowed the Puerto Rican economy to improve in absolute terms, but argued that it failed because it “. . . 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.”

**Relying on favors from Washington and investment from off the island is not a viable development strategy for Puerto Rico.** This long-established dependence is illustrated, for example, by Section 936 of the U.S. tax code and by the triple tax exemption of Puerto Rican government bonds. Yet, when 936 was in full-force during the 1976-1996 period, the economy performed relatively poorly (see table above). And 936 did its damage, contributing to the Puerto Rican governments’ failures to give sufficient support to the development of local entrepreneurs and local sources of finance, cornerstones of the more successful economic experiences in, for example, East Asia. As to the triple tax exemption, it was a prime factor in leading Puerto Rico to take on its unsupportable volume of debt.

**In addition, economic growth is inhibited by the uncertainty surrounding the existing status**. Not only is there the possibility that status, and thus the rules of economic operations, will change. In addition, even within the current status, the economic rules can be changed by particular needs in Washington (as the termination of Section 936 shows). Uncertainty discourages long-term investments.

**An Unlevel Playing Field**

**As a territory of the United States, Puerto Rico is treated poorly compared to the states in many federal programs and suffers significant, unfair losses.** The island is on an unlevel playing field in relation to the states. Unlike in the states, funds for many programs—including Medicare, Medicaid, and Nutritional Assistance—are more restricted in Puerto Rico. Were PR put on a level playing field with the states in federal programs, this would bring an infusion of $3 billion to $4 billion annually, providing a major stimulus to the economy as well as providing immediate help to the Puerto Rican people.

A particularly egregious example of this lack of fairness is Puerto Rico’s exclusion from the federal Earned Income Tax Credit (EITC) and limited eligibility for the Child Tax Credit (CTC). A married couple in the states with two children and earning $24,000 in 2018, would have received these credits and paid Social Security and Medicare taxes. (It would have no federal income tax liability.). **After these federal taxes and credits, the family (of U.S. citizens) in the states would end up with $30,680 for the year. The same family in Puerto Rico (also U.S. citizens) would have paid the same taxes but would have received neither the EITC nor the CTC. It would have ended up with $22.680.**

**The Debt, Austerity, and Status**

**In 2016, as a default of Puerto Rico’s public debt of roughly $70 billion was threatening the stability of financial markets, the federal government established the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).** The Act put the economy of Puerto Rico under the control of a federally appointed Financial Oversight and Management Board (FOMB) with the power to impose economic policies on the Puerto Rican government and to oversee the rescheduling of the debt.

**For Puerto Rico to have an economic future, the debt issue must be resolved. However, PROMESA and the the FOMB have underscored the subordinated status of Puerto Rico in the U.S. political system, leading many on the island to view their relation to the United States as that of a “colony.”**

**The situation is made all the worse by the austerity policies that are being imposed by the FOMB.** While it seems that the FOMB gives highest priority to making sure the creditors are repaid as much as possible, its plan for the Puerto Rico would have the economy growing slowly with continuing emigration for years to come.

**Statehood: The Only Option**

**While the status issue is formally under the authority of the U.S. government, the desires of the Puerto Rican people are central to any decision regarding the change.** **Support for statehood as compared to other options has risen over the years, dominating other option in referenda of 2012 and 2017.** The most recent poll shows support for statehood is greater than the combined support for independence and the current status.[[1]](#footnote-1)\*

**Among other factors, Puerto Ricans recognize that economic growth depends on statehood.**

**In addition to economic growth, from a human rights perspective, the continuation of the current status is untenable.** Whether Puerto Rico is called a “territory” or a “colony,” the people living in Puerto Rico are denied basic rights that the U.S. people, the U.S. government, and much of the world’s people and governments have long viewed as essential components of freedom.

**An important first step toward statehood, good and fair in itself, would be to create a level playing field for Puerto Rico, treating the island the same as the states in all federal programs. But a first step is only a first step. Statehood cannot wait for full recovery from the hurricanes and a period of economic growth. Recovery and growth, in fact, depend on statehood, which will give Puerto Ricans a full political voice in Washington. A full path to statehood must be established *now.***

1. \* The September 2018 poll by the Kaiser Family Trust and the Washington Foundation found that 48% of respondents favored statehood, 26% favored the current status, 10% favored independence, and 16% did not express a choice. [↑](#footnote-ref-1)