

The Moral Imperative

Principle and pragmatism demand rejection of the section 956 bill (Crane-Rangel, H.R. 2550) and encourage support for Congressional action that is effective, market-driven, and beneficial to the people and economy of Puerto Rico. To request another manufacturing tax exemption is to prescribe outdated Old Economy solutions for a 21st century of New Economy realities. To ask for another costly, targeted program in the current Washington climate of recession and tight budgets is to endanger and delay programs that will make a difference. Guided by a moral imperative to create opportunity and elevate the quality of life of the people of Puerto Rico, support must be withheld from 956 and constructive, market-based reforms should be promoted.

Like section 936 before it, section 956 will be ineffective in creating jobs and increasing wages, and heavily burdensome to the U.S. taxpayer. To reapply discredited Old Economy solutions to New Economy problems would consign Puerto Rico to further stagnation. More insidiously, 956 would again link Puerto Rico's need for a "permanent jump start" out of stagnation with a lucrative corporate welfare program. Ronald Reagan said it best when he observed that "welfare's purpose should be to eliminate, as far as possible, the need for its own existence." Instead, 956 would entrench Fortune 100 beneficiaries with billions at stake to maintain it.

Lobbying for the costly and ineffective H.R. 2550 would jeopardize the progress of positive, market-based initiatives for Puerto Rico. A practical assessment of the political climate in Washington also warns against supporting section 956. In a time of recession and tightening budgets, Congress is already unlikely to authorize any such expensive new programs. To support 956 would be squandering precious political capital best spent on constructive initiatives consistent with the market-driven economic principles.

Instead three worthwhile Congressional initiatives that will have a positive and immediate impact on the people and economy of Puerto Rico should be actively supported.

1. Bridge the Digital Divide. Puerto Rico now ranks last in nearly every aspect of the "New Economy." For Puerto Rico, the Digital Divide is a chasm that must be bridged if Puerto Rico is to function and compete in the U.S. and in the world economy. The first Congressional action should be the inclusion of Puerto Rico in any legislation addressing the Digital Divide. Prompt and decisive action is needed to allow Puerto Rico to function and compete in the U.S. economy and in the global economy. Nowhere in the U.S. would closing the Digital Divide have more potent results than in Puerto Rico, creating a leapfrog effect for the lagging economy.

2. Include Puerto Rico in the extension of the Research and Development tax credit. Washington action will also be required to ensure Puerto Rico's inclusion in the extension of the R&D tax credit. In Puerto Rico, Washington action is necessary to foster an environment where innovation can flourish. Incorporating Puerto Rico levels the playing field for mainland firms to supplement existing manufacturing activities and conduct R&D on the island. In at least two areas, manufacturing processing and clinical trials, Puerto Rico has a comparative advantage both in terms of costs, knowledge and infrastructure that has yet to be

exploited. Including Puerto Rico in the R&D credit would give R&D a chance to contribute wages, salaries and new venture spin-offs to the economy.

3. Transform the entire island into a federal Empowerment Zone. In addition to other benefits, Empowerment Zone legislation provides investors access to “cheap money” for expansion and enhanced benefits for hiring and upgrading critical human capital. The inclusion of Puerto Rico would particularly encourage mainland-island ventures that would receive healthy returns on investment.

Clearly, the rejection of 956 and Puerto Rico’s inclusion in the Enterprise Zones, closing the Digital Divide, and maintaining a level playing field for R&D, must be pursued simultaneously as a coherent strategy. Washington should see that continuing economic dependency, costly to the U.S. taxpayer, is rejected while market-driven measures, clear and immediately beneficial, are adopted.

Whatever the political climate, constituents deserve to have support vehemently withheld from another permanent crutch. Puerto Rico needs Washington to adopt measures that will allow it to stand on its own feet now. Asking for more of the same distracts from steps that Puerto Rico needs to take now to create real opportunity for its U.S. citizens in the 21st century.