**Creating a Puerto Rican Economic Miracle**

September 2019

After more than a decade of recession, hurricanes that devastated the island, and a political scandal that led to a popular uprising and resignation of the governor, it would seem that a miracle is needed to build a viable economy in Puerto Rico. In fact, that miracle can be created. There are actions that could put Puerto Rico on the path of solid economic growth. These actions would require a new set of supports from the federal government and forceful initiatives by the Puerto Rican government.

The essential government actions that could generate the “Puerto Rican Miracle” would include:

* A major push in public infrastructure investment of $20 billion over the 2021 to 2030 decade. This would be the foundation of change, which would spur an era of new private investment. (This investment program would require an effective administrative structure that could arrange financing and assure that the investment would be effective; see Appendix D.)
* Two substantial supports from the federal government: treating Puerto Rico in the same manner as the states in all federal programs; and providing the backing for a reasonable resolution of Puerto Rico’s public debt crisis, which would allow re-entry to credit markets.
* Reform of Puerto Rico’s regulatory system, with immediate attention to the long delays in clearing regulations.
* Repair of Puerto Rico’s public education system, assuring a labor force that has the capability to support a widening range of business activity over the long-run.
* Improvement in Puerto Rico’s tax collection, principally by more effective enforcement of existing tax laws (as opposed to raising rates).

These actions would provide a substantial boost to the Puerto Rican economy, both immediately and over the long-run. They would then have the crucial impact of changing the investment environment in Puerto Rico, providing a strong impetus to private investment. The resulting surge of private investment, in turn, would not only add to the economic growth, but would also provide the foundation for sustaining the growth. *Indeed, it is in the impact on private investment, the major change in the business environment, that the governments’ actions would become fully justified.*

*Yet, one more action is necessary to assure that economic growth is maintained. The political status of Puerto Rico must be changed in order to fully alter the island’s economic status. Statehood provides the only route that is likely to secure sustained, strong economic growth for Puerto Rico.[[1]](#footnote-1)*

If these essentials are all met, the annual rate of growth would be 1.55% over the 2021-2025 period, 1.9% over the 2026-2030 period, and 4% in subsequent years. The increases of employment would be similar. The projections attributable to different essentials are set out in each section of the following discussion and are presented together in Table 4.

**The Essentials for Economic Growth**

Essential #1: A Major Push in Public Infrastructure Investment

The foundation of a Puerto Rican Economic Miracle will be public infrastructure investment of $20 billion over the 2021 to 2030 decade, with the largest investments of $3.0 billion taking place in each of the first two years of the decade (FY2021 and FY2022), $2.5 billion in each of the next two years, three years with investment at $2 billion, and the final three years of the decade at $1 billion. A *conservative* estimate of the accomplishments is presented in Table 1 and includes:

* An upsurge of output and employment, as this investment gets underway. Within five years, output and employment could each increase by 8%.
* At the end of the decade, even under the assumption that the public investment ceases at that point, lasting output capacity would have increased by $6.7 billion, about 10% higher than current GNP. And the lasting jobs created would have increased by over 90 thousand, also a roughly 10% increase.
* Moreover, during the decade, while this substantial public investment is underway, the cumulative addition to output would be over $60 billion and over 800 thousand job-years of employment would have been created.

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Table 1: Investment and Outcomes of the Public Infrastructure Investment Boosting the Economy Over the FY2021 to FY2030 Decade

The Big Push

Public Infrastructure Investment $20 billion

New Lasting Output Capacity $6.67 billion

New Lasting Jobs Created 92.5 thousand

Total Addition to Output During the Decade $60.5 billion

Job-Years of Employment Created During the Decade 834 thousand

Increase of GNP in First Five Years\* 8%\*\*

Increase of GNP at the end of the Decade Onward\* 10%\*\*

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\* These figures are approximations. The small difference between the growth over the first five years and the growth over the whole ten years is accounted for by the fact that in the earlier half of the decade output is greatly expanded by the investment activity itself. At the end of the decade, however, the investment activity is assumed to cease, and the output expansion is only the result of the new capacity that has been created.

\*\* These figures are equivalent to annual rates of growth of 1.55% in the first five years and 0.4% in the second five years of the decade. See Table 4.

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*These estimates are conservative* because they do not take account of the large amount of new private activity that would undoubtedly take place as the program greatly alters the economic environment in Puerto Rico (though the simple multiplier impact of the investment is taken into account in these estimates). *Indeed, it is the gains in private activity, which would result from the alteration of the economic environment, that is the primary justification for the program and the assurance that a strong, viable economy will be the result*. These gains in private activity will be taken up shortly.

The details of these estimates and of the assumptions on which they are based are set out in a paper submitted to the Congressional Task Force on Economic Growth in Puerto Rico of December 20, 2016 (though the years in that paper are different).[[2]](#footnote-2) Aside from details, however, there is a question that immediately arises: Where would the $20 billion come from? There are four sources of the $20 billion: funds diverted from debt servicing as debt service obligations are reduced; funds obtained as the federal government shifts policy to treat Puerto Ricans in the same manner as U.S. citizens living in the states; additional government revenue obtained through initial improvement in Puerto Rico’s tax collection; and new debt directly connected to the public infrastructure investments. The amounts on an annual basis for each of these sources are set out in Table 2 and explained in Appendix B.

This program of public infrastructure investment would have two additional impacts on the rate of economic growth (beyond the investment’s direct and multiplier impacts)—an impact on all activity resulting from the existence of more extensive and better infrastructure and an impact on private activity resulting from the change in the economic environment. These two impacts would generate additions to the annual growth rates in the second five years of the decade of 0.25% and 0.5%, respectively, and in subsequent years of 0.75% and 1% respectively. See Table 4.

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Table 2: Sources of $2 Billion Annually for

New Public Infrastructure Investment

Reduction of Debt Service Payments

(one-half of reduction in debt service

on debt not constitutionally guaranteed)………………………$800 million

Revenue from Equal Treatment in

Federal Programs (share that accrues

to the government)……………………………………………….$400 million

Increased Effectiveness of Tax Collection

(5% increase in collection of the individual

income tax and an additional $100 million

from all other taxes)…….……………………………………..…$200 million

New Annual Borrowing

(ERB bonds at 5%)……...……………………………………..…$639 million

Service on First Year’s Debt\*..………………………..………….-$39 million

Total…….………..$2,000 million

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\* Because the expenditures on the public infrastructure would be “front loaded,” the actual amount of funds needed would vary from year to year. However, the source of the funds here is shown for the “average” year—that is, for $2 billion. Clearly, in the early years of the decade, with the very large amounts of investment, a larger amount of funds would be needed, but the larger amounts of these years would be offset by the lesser needs of later years. Also, this set of sources of funds does not include funds to service the new debt beyond the service on the first year’s debt. It seems reasonable to assume, however, that, as the economy begins to grow and creates an impetus for private investment, the increased economic activity will generate sufficient government revenue to pay the service on the new debt in subsequent years.

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Essential #2: Support from the Federal Government

*Creating a Level Playing Field*

The federal government has excluded Puerto Ricans from important federal programs and limited the support provided by other programs; Puerto Rico has not been on a level playing field with the states. Prime examples of this exclusion and limited support include: the Earned Income Tax Credit, the Child Tax Credit, Medicare, Medicaid, Nutritional Assistance, and federal procurement policies. Treating Puerto Rico the same as the states in the programs listed here could provide over $6 billion annually, generating a strong stimulus to economic growth.[[3]](#footnote-3) Estimates of the amounts that would come to Puerto Rico in each of these six programs when fully implemented in Puerto Rico as they are in the states are provided in Table 3.

Not only would full inclusion of Puerto Rico in these programs create a strong stimulus to the island’s economy, but it would also create fairness in the federal treatment of U.S. citizens in Puerto Rico and U.S. citizens in the states.[[4]](#footnote-4)

The impact of this additional influx of funds to Puerto Rico would add 0.5% to the growth rate in the second half of the 2021-2030 decade and 1% in subsequent years. (This projection takes into account that a share of the funds would be used to finance the infrastructure investment.) See Table 4.

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Table 3: Estimates of the Additional Funds that Would Come to Puerto Rico Were Puerto Rico Treated in the Same Manner as the States in Six Major Programs, Billions of Dollars\*

Earned Income Tax Credit and Child Tax Credit…………………...$1.8

Medicare…………………………………………………………………$1.5

Medicaid…………………………..……………………………………..$1.7

Nutritional Assistance……………….………………………………….$0.5

Federal Procurement………………………………………………… $1.0

Total……………………...$6.5

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\* The figures here should be viewed as rough approximations.

Sources and Methods: See Appendix C.

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*Assuring a Reasonable Resolution of Puerto Rico’s Public Debt Crisis*

Without a reasonable resolution of its public debt crisis, the Puerto Rican government can neither provide business and the public with the basic services that they need in order to function effectively nor make the public infrastructure investments needed as the foundation for economic growth. If the Puerto Rican government is to fulfill these vital functions, it cannot pay the debt service as originally contracted.

In the cases of sovereign countries with major debt problems, the International Monetary Fund or coalitions of high income countries (including the U.S. government) have provided support for resolution of those problems. With large firms in the United States in severe difficulties, the federal government has stepped in to prevent their demise; the case of the auto companies in the 2008 financial crisis provides a case in point. The federal government will need to provide support for Puerto Rico to resolve its public debt crisis in a favorable manner. This will, of course, mean that bond holders will bear a share, a major share, of the cost.

If Puerto Rico wee to meet its contracted debt service obligations, the payments would amount to about $4 billion annually. In providing funds for the major infrastructure investment, it has been assumed that that this figure could be reduced to $2.4 billion. (See Appendix B.) For Puerto Rico to move forward, however, debt service obligations need to be more than halved, to a maximum of $2 billion annually. The federal government, largely through the U.S. Treasury can take a major role in moving Puerto Rico to this goal, as it has done in its role with loans to sovereign countries and major U.S. corporations. Also, the Treasury could guarantee bonds issued to support the major infrastructure program described here.

Essential #3: Reform of Puerto Rico’s Regulatory System

Most important in stimulating private investment is the impact of the public infrastructure investment described above. However, more is needed to improve the environment in Puerto Rico for private investment. In particular, there is a need for reform in the Puerto Rican regulatory regime. The regulatory system in Puerto Rico appears to hamper the development of businesses beyond what is necessary to prevent corruption, protect the environment, assure the health and safety of workers and the general public, and prevent firms from engaging in practices that are unfair to the public. In its *Doing Business* report for 2019, the World Bank ranks Puerto Rico 64th, out of 190 countries, in terms of the “Ease of Doing Business,” right behind Morocco, Kenya, Bahrain, and Albania. The United States ranks 8th. No attempt will be made here to sort out which regulations serve positive social functions and which are unnecessary and create an excessive burden on business. Yet, doing so, and eliminating the excessive burdens on business is a necessary part of supporting the private sector and its growth in establishing viable economy.

Moreover, it is clear that, whether good or bad, clearing regulations—for example, obtaining permits—involves lengthy, unreasonable delays in Puerto Rico. For example, in “dealing with construction permits” *Doing Business* reports that the average length of time is 165 days; Puerto Rico ranks 141st in this category. And in “registering property” the time it takes is 191 days, with Puerto Rico ranking 159th. A good first step in regulatory reform would be to focus on greatly reducing these waiting periods. (The accuracy of *Doing Business* has come under criticism in recent years. But, even allowing for a wide margin of error, the problems it identifies for Puerto Rico are substantial.)

These reforms of the regulatory regime would add 0.25% to the growth rate in the second half of the 2021-2030 decade and 0.5% in subsequent years. See Table 4.

Essential #4: Repair of Puerto Rico’s Public Education System

Over the long-run, business cannot prosper and grow without a well-educated populace. Yet, the record of public education in Puerto Rico is not good. In terms of years of schooling and higher degrees obtained, the Puerto Rican population appears to be well educated. Years of schooling and degrees, however, are poor measures of the educational level of a population. The impact of schooling has to be taken into account, and all indications suggest that the Puerto Rican public schools do not generate strong academic accomplishments.

On tests that can be compared with those taken by students in the states, Puerto Rico fares very poorly, with students scoring far below their counterparts even in the worst performing states. Test scores, of course, can be a poor measure of students’ abilities. However, the quality of the public schools is also called into question by the reaction of parents, who appear to have been increasingly losing confidence in the public schools and, when they can afford it, sending their children to private schools. Recent data are sketchy, but it appears that about 25% to 30% of students in elementary and high school attend private schools. The comparable figure in the states is about 10% to 12%. Education reform is clearly needed.

Of course, poverty and economic inequality, as well as what goes on in the schools, have contributed to the poor educational outcomes in Puerto Rico, but improvements can still be obtained through reforms of the public school system. While more funds for the schools would help, there are relatively costless administrative changes that could also lead to improvements. One aspect of reform should be a cessation of administering all the public schools in Puerto Rico as a single district. It is well established that large school districts tend to be less effective in educating students and do not obtain significant economies of scale. The excessive weight of administration in the Puerto Rican public school system shows up in the share of per pupil expenditures that goes for instruction. At present, only 43.6% of per pupil expenditures goes to instruction, while for the states the figure is 60.8% and 54.5% for the lowest state (Arizona).

Changes in the public schools, even if immediately implemented, would only have long-run impacts on economic growth—none with the 2021-2030 decade, but would add 0.5% in subsequent years.

Essential #5: Improvement in Puerto Rico’s Tax Collection

In order to provide the revenue that is needed for activities that support the private sector and for the provision of public services, it is essential to improve tax collection in Puerto Rico. Moreover, economic growth is aided when people see the tax system as fair.

In the years of recession, Puerto Rico appears to have virtually given up on collection of income taxes, both individual and corporate. While the economy grew in nominal terms by 23% between 2006 and 2017, the income tax on individuals fell by 29% and on corporations and partnerships by 37%. Revenue collection has shifted to increasing reliance on the sales and use tax and an excise tax on the products and services purchased by a corporation in the states from its Puerto Rican subsidiary. The former is highly regressive and undermines consumer purchasing power, while the latter is contingent on continuing cooperation from the federal government, as it simply shifts revenue to Puerto Rico from the U.S. Treasury.

With the economy expanding in nominal terms, effective collection should have at least kept nominal income taxes from dropping—certainly from dropping so dramatically. The major public infrastructure proposed here, a major support for the private sector, requires some first steps toward a well operating tax collection system. A substantial first step in tax reform would not mean an increase in tax rates, but could be accomplished by more effective enforcement.

Improvements in tax collection, perhaps accompanied by other reforms, would have no effect on the growth rate during the 2021-2030 decade, except insofar as they contribute to financing the public infrastructure investment. However, by providing funds for the government services to support business and the development of the workforce (e.g., in training programs) as well as generating wider public confidence in the fairness of the system, the tax reform would raise the growth rate by 0.25% in subsequent years. (See Table 4.)

**Status**

If the steps proposed here are implemented, under the existing status of Puerto Rico, the positive results are unlikely to endure. For them to endure and yield the projected advances—the rates of growth of Table 4—at some point in the foreseeable future the status of Puerto Rico must change. Statehood provides the status that could lead to an era of economic growth—that, in particular, could sustain the program set forth here. Statehood would give Puerto Rio a much needed voice in Washington. Statehood would shift the island off of its dependent status and establish a basis for economic growth.

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**Table 4: Projection of Annual Percent Rates of Growth in the Puerto Rican Miracle**

Attributable to: Years 1-5 Years 6-10 Onward

Direct impact of 1.55% 0.4% 0

public infrastructure

investment (including

multiplier impact)

Existence of a better - 0.25 0.75

infrastructure

Private sector reaction - 0.50 1.00

to change in business

environment due to public

infrastructure investment

Inflow of funds from - 0.50 1.00

equal treatment

in federal programs

Deregulation - 0.25 0.50

Education reform - - 0.50

Tax reform - - 0.25

**Total 1.55 1.90 4.00**

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**Appendix A**

**The Puerto Rican Economic Debacle**

Perhaps the best description of economic conditions in Puerto Rico are the stories of people’s daily lives, their experiences as the economy has crumbled. Those experiences are well known in Puerto Rico and many of their stories have appeared in the U.S. media. Here is simply some aggregate context for those stories. Table A below provides data on several measures of Puerto Rico’s economic crisis. (The data are for fiscal years.)

Though there were signs of decline before 2006—for example, a fall-off of both population and investment—gross national product (GNP) began to decline from that year onward. Between 2006 and 2017, before the hurricanes, GNP dropped by 14.9%; then in fiscal year 2018, which included the hurricanes, GNP was off by another 4.7%. GNP data for fiscal year 2019 are not yet available, but the government’s Economic Activity Index (EAI) shows that in 2019 the economy almost recovered to its 2017 level. However, monthly EAI figures for fiscal year 2019 show no upward trend (and perhaps indicate a slight downward trend).

Economic conditions are reflected in the very large decline of the island’s population, 12.6% between 2006 and 2017 and then another 3.9% in the exodus following the hurricane devastation of September 2017. The population decline meant that, compared to the drop of GNP, the decline of per capita GNP was not nearly so large, down only 3.5% in the 2006 to 2017 period. However, it is the fall-off in total GNP and the dramatic population decline that chill, if not destroy, the climate for investment.

The population decline has not been uniform across age groups. In particular, the dramatic decline in the population of children and the aging of the population present ominous signs for the future of the economy.

This general description of Puerto Rico’s economic deterioration, then, is the setting from which a new era of economic expansion must be created. If, however, the essentials are fulfilled, it will be possible to create the needed miracle.

Table A: Basic Indicators on the Performance of the Puerto Rican Economy,

Fiscal Years 2006, 2017, and 2018\*

Change Change

2006 2017 from 2006 2018\*\* from 2017

Real GNP

(million 2017 dollars) $82,255.8 $69,999.7 -14.9% $66,709.7 -4.7%

Per capita GNP $21,550 $20,796 -3.5% $20,643 -1.6%

(2017 dollars)

Economic Activity Index 156.6 122.4 -21.8% 114.6 -6.4%

Employment (thousands) 1,266 982 -22.4% 971 -1.1%

Unemployment rate 11.0% 11.5% 10.3%

Labor Force 47.9% 40.1% 40.1%

Participation Rate

Population (thousands) 3,805 3,325 -12.6% 3,195 -3.9%

Population under 833 562 -32.5% 485 -13.7%

(thousands)

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Source: Directly from or calculated from data in *Informe Económico al Gobernador Puerto Rico*, Apéndice Estadístico, 2011 and 2018.

\* Note that the hurricanes of September 2017 fall in Fiscal Year 2018.

\*\* Data for 2018 are preliminary.

**Appendix B**

**Sources of Funding for the $20 Billion in Public Infrastructure Investment**

*Reduction of Debt Service Payments*. A reasonable initial resolution of Puerto Rico’s debt crisis through restructuring would result in a halving of the debt service payments of public enterprises, municipalities, and central government debt not constitutionally guaranteed. In 2015 and 2016 (i.e., before any restructuring), total debt servicing payments expended on Puerto Rico’s public debt were about $4.0 billion. However, about 20% of the debt was “General Obligation, Guaranteed and Publically Issued Appropriation Debt.” It is assumed here that, leaving aside this “Guaranteed” portion (but see below), debt servicing on the remainder would amount to about $3.2 billion. Then, a reasonable resolution would lead to this $3.2 billion of debt servicing being halved, freeing up $1.6 billion annually. Also, it is assumed that, although much of the savings of $1.6 billion will directly accrue to public enterprises and municipalities, it will be available for general government use. It is further assumed that half of this, $800 million, will go to meet current needs (e.g., schools, medical facilities and other public services, maintenance of existing infrastructure, and the immediate needs of public enterprises). This leaves $800 million that could be devoted to new public infrastructure investment. (It would be highly desirable, facilitating more positive economic growth possibilities, if a greater amount of debt service reduction than assumed here were obtained. The figure used here is a minimum of what might be expected. Again, see below.)

*Revenue from Equal Treatment in Federal Programs*. Any program for economic growth will depend in significant part on Puerto Rico being treated in the same manner as the states (i.e., U.S. citizens in Puerto Rico being treated in the same manner as U.S. citizens in the states). One aspect of this equal treatment would be to extend the Earned Income Tax Credit and the Child Tax Credit fully to Puerto Rico. Equal treatment would also affect Medicare, Medicaid. Nutritional Assistance, federal procurement expenditures, and other social support programs. Taken together, equal treatment in this set of six programs specifically noted here could inject about over $6 billion annually to the Puerto Rican economy. (See Table 3 in the text.) However, because it would take time to inaugurate and implement this equal treatment, here it is assumed that only $2 billion would be injected annually. Most of this injection of funds would go to families and directly to services (e.g., medical services). Some, however, would offset medical services currently funded by the government. Also, this injection of funds would yield some tax income for the government and would induce a higher level of economic activity, which would also raise tax revenue. All in all, it is reasonable to estimate that equal treatment would result in a $400 million increase in government revenue that could be directed towards new infrastructure investment.

*Increased Effectiveness of Tax Collection.* Any program to alleviate the current debt crisis will require steps by the Puerto Rican government to increase the effectiveness of its economic policies, most importantly its tax collection policies. More effective tax collection policies should raise collection of the individual income tax by 5%, or roughly $100 million. From increased effectiveness in the collection of all other taxes, an additional $100 million could be raised. (See below regarding more on this point.)

*New Annual Borrowing.* While these three sources of funds totaling $1,400 million would be important, they would not be sufficient to fund the level of infrastructure investment that would generate substantial growth and employment increases. New borrowing will be needed. With the existing debt burden greatly reduced and with the role of the Economic Rehabilitation Board (see below), bond investors should have a level of confidence that would make new borrowing possible at lower interest rates (as compared to the over 8% interest rate that was being charged on Puerto Rico’s bonds before the governor declared the debt “unpayable” in 2015). Moreover, repairing the Puerto Rican economy would be most effective if the U.S. Treasury would guarantee payment on the new bonds. (The possibility of federal guarantees is suggested in PROMESA, Title V, Sec. 505, Paragraph b.) Assuming the Puerto Rican government could borrow under these circumstances at 5%, it would need to borrow $639 million each year. After allowing for the $39 million for first-year servicing of the 5% payment on this new debt (see note to table above), the net addition to funds would be $600 million and would bring the total available for new infrastructure investment to $2 billion each year.

The actions described here, including especially the reduction in the debt service, would suffice to finance the $20 billion of public infrastructure investment. However, Puerto Rico would still be left with approximately $2.4 billion is annual debt service payments. An outflow of funds of this magnitude would threaten the growth of the Puerto Rican economy, notwithstanding the infrastructure investment. It is doubtful that a viable economy in Puerto Rico can be attained with debt service payments over $2 billion annually. Thus, beyond the restructuring of the debt set out above, a mechanism must be found to reduce the debt service by at least another $400 million. Restructuring of the guaranteed debt needs to be put on the table.

**Appendix C**

**Sources and Methods for the Estimates in Table 3, Showing Estimates of the Additional Funds that Would Come to Puerto Rico Were Puerto Rico Treated in the Same Manner as the States in Six Major Programs, Billions of Dollars**

Sources: Medicare: Kaiser Family Foundation, “Total Number of Medicare Beneficiaries,” <https://www.kff.org/medicare/state-indicator/total-medicare-beneficiaries/?currentTimeframe=1&selectedRows=%7B%22wrapups%22:%7B%22united-states%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>; and Kaiser Family Foundation, “Puerto Rico: Fast Facts,” <http://files.kff.org/attachment/Fact-Sheet-Puerto-Rico-Fast-Facts>. Medicaid: Judith Solomon, “Puerto Rico’s Medicaid Program Needs an Ongoing Commitment of Federal Funds,” Center for Budget and Policy Priorities, April 22, 2019, <https://www.cbpp.org/research/health/puerto-ricos-medicaid-program-needs-an-ongoing-commitment-of-federal-funds>; and U.S. Government, Medicaid.gov, Puerto Rico, Medicaid Overview, <https://www.medicaid.gov/state-overviews/puerto-rico.html>. Nutritional Assistance, Food and Nutrition Service, U.S. Department of Agriculture, *Implementing Supplemental Nutrition Assistance Program in Puerto Rico: A Feasibility Study*, June 2010, <https://fns-prod.azureedge.net/sites/default/files/PuertoRico.pdf>. Federal procurement data for Puerto Rico and the states for 2010 (the most recent year the data are available) are from *Consolidated Federal Funds Report for Fiscal Year 2010, State and County Areas*, U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, Issued September 2011.

Methods: For EITC and CTC, the estimate is based on unofficial scoring of the impact of these two programs. With regard to Medicare, the difference between benefits per recipient in Puerto Rico and the states is $3,733. There are 775 thousand Medicare recipients in Puerto Rico. With an additional $2,000 per recipient in Puerto Rico, the total increase would be about $1.5 billion. Medicaid: There are about 1.5 million Puerto Ricans receiving Medicaid, with benefits per enrollee $2,144. In the state with the lowest benefits per enrollee, the figure is $3,341. If (1) the federal share of Medicaid expenditures were raised to 70% (from the current 57%), which would roughly treat Puerto Rico by the same formula as is used for the states, and (2) if the total benefits per enrollee were raised to the level of the state with the least benefits, the federal government would be providing $1,117 more per enrollee. Multiplying this figure by the number of enrollees yields about $1.7 billion. For Nutritional Assistance, the figure is taken directly from the report cited above. All figures for earlier years (e.g, the Nutritional Assistance figure) are updated to 2019 dollars. For federal procurement, data are not available since 2010. It has been assumed here that total federal procurement rose in proportion to federal government expenditures. In 2010, Puerto Rico received on a per capita basis about 15% of the average for the states. Assuming that this would increase to 30% of the state average and adjusting for the population decline in Puerto Rico, the total amount of federal procurement would increase by about $1 billion over the current level.

**Appendix D**

**Administration of the Public Infrastructure Investment Program**

PROMESA created the Fiscal Oversight and Management Board (FOMB) to oversee fiscal operations of the Puerto Rican government, including restructuring of the debt and any new borrowing. Yet, the FOMB has proved to be a failure, apparently more concerned with assuring that holders of Puerto Rican bonds would be well cared for than in established a viable economy in Puerto Rico, let alone the miracle that is needed. PROMESA also provided for a Revitalization Coordinator, tied to the FOMB, who would oversee new infrastructure investment. Here too, however, there has not been positive action. Yet, Puerto Rico cannot simply rely on long-discredited institutions within its own government to oversee both the public infrastructure investment proposed here and the new borrowing that will be necessary for that investment.

A new administrative unit needs to be created, an Economic Rehabilitation Board (ERB) that would have two functions: overseeing the selection of particular infrastructure investments and their implementation; and organizing the issuing of the new debt and other financing of the investment program set out above. To perform these functions, the ERB would need a staff including two sets of experts: those with experience in finance and those with experience in infrastructure investment.

The Board itself would be made up primarily of Puerto Rican residents. They must be drawn, however, from across the political spectrum. They cannot be simply the representatives of the party in power. A board made up in this way is necessary to assure public confidence, as well as to reduce both the perception and the reality of corruption. Moreover, it is essential that the operations of the ERB be as transparent as possible.

While public confidence is important, it is also important that the ERB generate confidence in the financial markets. New borrowing at reasonable rates is an essential component of the infrastructure investment program. This component can be assured only if bond purchasers have confidence that the borrowed funds will be used effectively, that projects will be appropriately selected and will be completed on schedule. Only then will it be clear that the infrastructure improvements will yield the promised positive outcome, that the economy will grow accordingly, and that the bonds will be secure.

There are many details that will need to be specified before the ERB can be created. No attempt will be made here to determine those details. Those details, however, must be consistent with the principles set out there: Board members must be primarily Puerto Ricans, drawn from across the political spectrum; the Board must have a staff with the necessary expertise; and the Board must operate with the utmost transparency.

1. Success with this set of actions will also require that the dire economic situation in Puerto Rico must be fully recognized, not only by people on the island who have been experiencing the economic decline, but also by the political authorities and the public in the states. Appendix A provides a brief summary of important variables that describe the situation. [↑](#footnote-ref-1)
2. J. Tomas Hexner and Arthur MacEwan, “Reviving the Puerto Rican Economy Requires A Big Push of Public Infrastructure Investment” available online at <https://www.finance.senate.gov/imo/media/doc/Arthur%20MacEwan%20and%20J.%20Tomas%20Hexner%20(Submission%205).pdf>. [↑](#footnote-ref-2)
3. A full listing of these and other federal programs in which Puerto Rico is treated differently than the states, along with extensive discussion, is included in the December 20, 2016, Report to the House and Senate of the *Congressional Task Force on Economic Growth in Puerto Rico*, Appendix 2: “Federal Programs Under Which Puerto Rico Receives Differential Treatment,” <https://www.finance.senate.gov/imo/media/doc/Bipartisan%20Congressional%20Task%20Force%20on%20Economic%20Growth%20in%20Puerto%20Rico%20Releases%20Final%20Report.pdf>. [↑](#footnote-ref-3)
4. See, for example, Arthur MacEwan and J. Tomas Hexner, “Including Puerto Rico in the Earned Income Tax Credit and the Full Child Tax Credit,” Paper submitted to the Congressional Task Force on Economic Growth in Puerto Rico of December 20, 2016, available online at: <https://heller.brandeis.edu/gds/eLibrary/pdfs/2016_09_Oct_08_Including-Puerto-Rico-in-EITC-and-CTC.pdf>. [↑](#footnote-ref-4)